

- a. New Balance of Redistribution and Market Institutions in Modern Russian Economy
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This paper highlights the institutional interpretation of scaled market reforms in Russian economy starting 1980 up to nowadays. The methodology of this research is based upon the institutional matrices theory, developed by the author. The main theses of the institutional matrices theory are given in Proceedings of Hawaii International Conference on Social Sciences, June 12 - 15, 2003 (*Proceedings*, 2003).

According to this theory, an *institutional matrix* (a derivative from the Latin “queen; foundation; primary model”) is defined as a system of basic institutions, which combine economy, politics and ideology, and regulate the functioning of a state as a whole. Two ideal types of institutional matrices that differ qualitatively and aggregate a whole variety of states of a society as a social system can be singled out: an X-matrix and an Y-matrix. They differ in a set of basic institutions forming them.

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

- in the economic sphere: *redistribution economy institutions* (term introduced by Karl Polanyi’s, 1977). 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 communitarian ideology*, the essence of which is expressed by the idea of dominance of collective, public values over individual ones, a priority of We over I.

X-matrix institutions are predominant in Russia, most Asian, Latin America, and some other countries.

The following basic institutions belong to the Y-matrix:

- in the economic sphere: *institutions of market economy*;
- in the political sphere: *institutions of federative (federative-subsidary) 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.

Y-matrix institutions are prevailing in the public order of most countries of Europe and the USA.

The type of material-technological environment is crucial for the formation of a particular type of institutional matrix. We distinguish a *communal* environment and a *non-communal* one. 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 public goods 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' content of a state which is developing within a communal environment is, eventually, determined by the tasks of coordination of joint efforts towards its effective use. Thus, an X-matrix is formed under communal conditions, 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.

From the point of view of this theory the essence of Russian economic reforms is the search for the optimal combination of market and redistribution institutions and modern forms of their embodiment.

Complexes of redistribution institutions (X-type) and market institutions (Y-type), which are the main subject in this research, are presented in details in the table.

Table. X- and Y-institutions and their functions in economy

Functions of institutions	X-institutions	Y-institutions
Fixing of goods (property rights system)	Supreme conditional ownership	Private ownership
Transfer of goods	Redistribution (accumulation-concordance-distribution)	Exchange (buying-selling)
Interactions between economic agents	Cooperation	Competition
Labor system	Employed labor	Contract labor
Feed-back signals (effectiveness indexes)	Cost reduction (X-efficiency)	Profit markup (Y- efficiency)

Property rights system ensures the basis for stable relations between economic agents. The structure of property rights entails the order of resources, got from the nature, for the production and the subsequent delivery of the goods to the people for their existence and development.

The specificity of **supreme conditional property** is that the rules of access for the use of some objects as a means of production are conditional. These rules are changeable in the course of time and dependable on the external circumstances. The supreme hierarchical level of governance determines the rights of access in accordance with the public role and importance of the resources for each historical moment. Due to the existence of the supreme conditional property institution the ownership configuration is permanently changing but the role of the supreme center as the principal regulator of property rights is constantly preserved. If the objects belonged to any economic agent do not assure the essential contribution to the total productivity or if they are not used for the public benefit, they can be seized and returned to common ownership or transferred to the other productive economic agent.

Private property means that the society sanctioned the whole constant property rights (including the possession, disposal and use of the objects) to the economic agents.

Transfer of goods within the framework of appropriate property rights is regulated by redistribution or exchange.

Exchange means the horizontal interactions between independent economic agents for the profit gaining.

Redistribution describes the process of material goods and service (and proper rights) transfer not between the independent agents as in exchange process but transfer between the agents and the Center as a mediator. Historically the redistribution as an institution emerges in the nations where the majority of economic agents depend on the common significant resource. Such resource can be called public goods. In this case it is necessary to coordinate the transactions not only between two interactive agents but also between other economic agents which can explicitly or implicitly be involved in the transactions. The motivation to minimize the transaction costs leads to the creation of one special Center responsible for the necessary coordination. All necessary information is accumulated in this Center. The rules and the order for the use of common goods are defined there. The appropriate resources are concentrated in this Center to support its coordinative functions.

Thus the redistribution model includes three participants of transaction, namely, a pair of economic agents and the Center as a mediator. Redistribution means the permanent process with three basic phases – *accumulation* (collection storage of resources and goods) – *concordance* (concentrated in the center) – *distribution* (resources, goods and proper rights).

Since the exchange (the market) and the redistribution are the fundamental peculiarities of the economic systems based on them, the economies with predominating X-institutions can be rightfully named redistribution economy

(following Karl Polanyi), whereas the economies with prevailing Y-institutions can be named exchange or market economy.

The institutions of cooperation or institutions of competition regulate interactions between economic agents. **Cooperation** fixes itself as an institution when the joining up of people for the involvement of the resources into the economy is more productive than the use of restricted resources by separate agents. In communal material and technological environment the cooperation between economic agents with the Center as a mediator is the predominant mode for achievement of economic objectives.

Accordingly **the competition** stimulates the possession of the limited resources when it is possible to get benefit from the ownership of the part of material resources, material and technological environment and other means of production. There are many different models of competition on the market, for instance monopolistic competition (*Chamderlin, 1956*) or imperfect competition (*Robinson, 1948*).

The institutions of service labor (*Bessonova, Kirdina, O'Sullivan, 1996, p.8-9*) and wage labor regulate the labor relations in economies. **Employed labor** institution means the realization of redistribution laws in the labor sphere as K. Polanyi noted (*Polanyi, 1977, p.36*).

The essence of **contract labor** institution is, according to Karl Marx, that labour-power becomes a commodity – it is sold and bought on the market (Marx). The institutions with the functions of feedback signals also perform in the economic systems.

Without the pressure of competition the efficiency of the redistribution economy can be achieved at the cost reduction in each its segment and in the economy as a whole. H. Leibenstein called this phenomena **X-efficiency** (*Leibenstein, 1966, 1978*).

Y-efficiency means the profit markup - or growing of the producer surplus and consumer surplus (*Principles of Economics*) and marks signals that the economy is successful.

All X- and Y-institutions coexist in actual national economies in different combinations and are embodied in many institutional forms.

By the middle 1980s on the eve of *perestroika* (in terminology of the Soviet Union) or *transition economy* (in terms of world social sciences) Russia had the unbalanced institutional economic structure. It appeared in predominating and active development of X-institutions of redistribution economy only. Y-institutions which are necessary for successful growth of economic system, were undeveloped and performed as latent, shadow or illegal forms only. At last such misbalance resulted in the non-efficiency of the social system and the deep decrease of its economic and social parameters. The necessity of systemic reconstruction and rearrangement of the institutional structure was recognized in the Russian society.

From the middle of 1980s new political leadership began to develop the market Y-institutions on the legislative basis:

- the privatization (in different forms) of the majority of the state scale enterprisers and all the state middle and small enterprisers was put into practice to create **the private property**;
- the decentralization in the economic governance system was realized to develop **the exchange** transactions instead of redistribution. The state planning system (“Gosplan”) and rigid connections between economic agents was liquidated. The price management was stopped;
- new laws about the creation and liquidation of new enterprisers and small business in all branches of economy (from finance and banks to trade and service) were passed to develop **the competition**;
- **the contract labor institution** substitutes for the service labor because the state system of manpower training and distribution was liquidated. The relationships between employees and employers became the subject of the contract. Both the state salary management and the price management were canceled.
- **the profit markup (Y-efficiency)** becomes the main criteria for new enterprisers and their owners acting in open and competitive market environment.

The attempt to replace the redistribution institutions by the market ones failed. It was evident because there was neither growth of the total efficiency in economy nor expected efficiency increase of the new companies. In 1998 after *the default* the state economic policy was turned to the search for the optimal and balanced combination of related market and redistribution institutions.

Since the late 1990s – early 2000s (when new political leaders and actual president Vladimir Putin took the office) more attention was paid to the modernization of redistribution X-institutions rather than to the implementation of market Y-institution as it was before:

- **the supreme conditional property institution** shows itself in the creation of the large-scale joint-stock companies and holding structures under the management (or with control share in capital) of Russian government or regional governments. Such companies are mainly presented in infrastructural or high-tech branches including gas, petroleum and energy production and transportation, railway transport, space and aircraft construction, housing management in the cities, motor-car industry, information and communication etc;
- **the redistribution** is presented in new *National Projects* under the federal governance and supported by the federal budget. These projects covered the main spheres of human being namely the education, the public health, the housing and the agriculture. The centralized scheme of National Projects Management on the new level puts the redistribution scheme (accumulation-concordance-distribution) into life;
- **the cooperation** development is performed in the following: 1) state bodies involve different business structures into the decision-making process of the development of the country, investment participation including; 2) state patronage in the establishment of different forms of cooperation with

business structures; 3) correction of large business structures reformation, directed from the concentration on their own enhancement of efficiency and capitalization to the deep involvement in the process of the country's economic development. (e.g. electric power reform correction) etc.

- the development of **employed labor** is expressed in the following: 1) the organization of the industry specialists education system on the basis of private-and-state partnership the state retaining its leading position; 2) the new labor policy which is primarily oriented towards the wealth of people working in the so-called budgetary financed area of economy; 3) the growth of non-monetary factors of labor reward (which is peculiar for the system of service labor)
- **-X-efficiency (cost reduction)** is expressed in the price and tariffs regulation both on federal and regional levels. The main objective of the corresponding commissions (in electric power, railway transport, housing service) is not the revenue of the companies but the decrease of general resources and manpower use as well as national product expenditure and total cost of its production.

As a result, the new balance of redistribution and market institutions is being created in Russia at present. The development of redistribution X-institutions in the institutional structure of Russia along with the further support of market Y-institutions forms a more balanced (in favor of the former) institutional structure. The process of its formation goes along with the recent growth of economic and social development indexes in Russia. In 2006 Russia occupied the 10-th (compare to the 18-th in 2005) place on the GDP index in the world.

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