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## X and Y economies in Russia: neoinstitutional approaches

Ildar Ablaev\*

*Professor at the Department of Economic Methodology and History, Institute of Management and Territorial Development, Kazan Federal University, Address: 18, Kremlevskaya St., Kazan, 420008, Tatarstan, Russia*

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### Abstract

The article dwells on the neo-institutional approaches of R.Coase, D.North, V.Oyken and K.Polanyi to treatment of the two types of economies: the Western liberal-market and centrally controlled, redistributive economics. The author with the help of this neo-institutional methodology presents his own new concept of the structure of the Russian market, within which he singles out some other market types existing on the legal and the shadow levels.

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### 1. Introduction

Russia is a great and original Euro-Asian power with vast natural resources and a bullish economic potential. It develops in its historical trajectory, according to its individual methods and unwritten, mostly informal, institutional rules of business conduct. As a matter of fact, for the latest 500 years Russia practices a permanent model of overtaking development. Constant lag of Russia in the level of applied technology and economic models of investment and innovative development as compared with the industrialized countries

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\* Ildar Ablaev. Tel.: +78432330723; fax: +78432330722.  
E-mail address: [2330723@mail.ru](mailto:2330723@mail.ru).

has its own objective reasons: first of all, it is due to the established and historically conditioned national peculiarities of economic management, the authoritarian type of state and government at all the levels.

In this regard, in accordance with its characteristics such as economic and political institutions, the type of government, national traditions of collectivism and mentality in general, Russia is much closer to China, India and Latin America than the U.S. and Europe. So that Russia is very remotely related to the economic formations of Europe and the U.S., that is to the Anglo-Saxon Romanic-Germanic type of civilization which these countries belong to. The rational base for this thesis may be following.

## **2. Theory of X and Y Economies**

Nowadays, it is the neo-institutional theory X and Y economies that lately widely spread among the leading Western economists and in Russia (Kirdina, 2004) as well. According to it there are 2 types of alternative economic system in the world economy had been established to the beginning of the XXI century: non-market X-economy and the market Y-economy. For that reason, all countries can be classified in compliance with this typology.

In this respect Russia may logically be referred as an authoritarian non-market X-economy, (together with China, India, Arab States, Korea (North and South), Latin America, Japan and Southeast Asia) which coexists and interacts with Y-economies, the market systems of Europe and the USA.

Marx called the "X economy" an Asiatic mode of production, V. Oyken - centrally controlled economies, K. Polanyi (Polanyi, 1957) - redistributive economies, Russian Economist G.Kh. Popov - administrative-command system, American political scientists (Henry Kissinger, Zbigniew Brzezinski) - a totalitarian system.

Unlike the "old" institutionalists, neo-institutionalists of the economic science of 1970-1990s (Williamson, 1986; Coase, 1937, 1960; North, 1990, 1997) apply the concept of the institution in the broader sense interpreting it as one of the major factors of economic interactions. Hence, according to the well-known definition given by a Nobelist R.D.North, institutions are "rules of play" within the society that organize the interrelation between people and structure the exchange incentives in all the spheres: political, social and economic (North, 1990). Here the western economists follow the tendencies typical of the social science in treating the phenomenon of institutions.

Karl Polanyi, anticipating many of the institutionalists, suggested to treat the economy as an institution built in the context of all the whole set of the cultural traditions and social relations (Polanyi, 1957). And it is quite a different matter that special tools required to implement this approach. We attempted to suggest such a kind of tools within the concept of the institutional matrices.

The concept of the institutional matrix focuses our attention on the emergent nature of the institutions and enables to mark out those institutional structures that, having been formed once due to a certain coincidence of material and historic conditions, are inherited, reproduced and survive. The identification of the institutional matrices of the state is the task of current importance set in the modern institutional theory (North, 1990).

If it is typical of the X-economy to have the command economy as a basic institutional element and the government supreme ownership of factors of production, and market subsystem has a complementary character, then the Y-economy (the U.S. and Europe), on the contrary, is marked out by the market as the basic element with the individual institution of private property as its distinctive feature rooted in Roman private law, and administrative-command system is not of primary importance. Y-economy grew up from competitive environment of free artisans, merchants, moneylenders. They created the independent trading cities in Europe, the first guild and economic alliances, and then parliamentary republic. In the U.S. the constitution of T. Jefferson defined the state as an organ of coordination of public interests of private owners,

where the last delegate its powers to the State under public contract. And in the countries of X-type economy is traditionally created and controlled by the top authority. Following Clausewitz V. Lenin defined this kind of state as an apparatus of violence of the ruling class over the rest.

The fact that Russia belongs to a predominantly non-market model of development specifies the historical type and economic origin of the Russian state.

Throughout its history its qualitative feature has been a traditionally leading role in management characterized mainly by feudal methods of non-economic oppression - total power over his subjects, in the form of personal dependence of each subject (nominally a citizen) on the local and supreme authority. Accordingly, the most common forms of institutional relations between economic entities and officials at all levels were the rental relationship: quitrent (in modern terminology and economic shape - "rollback") and money-rent (for all kinds of access to resources, and various services for most-favored business, permits, quotas, licensing, pardons for offenses benefits of currency and customs corridors and so on).

### 3. The Structure of modern Russian market

In the development of the approach of S.G. Kirdina (Kirdina, 2004), according to which X and Y economies interact and coexist within every economic system (Ablaev, 2004), where one is the base (matrix), and the other is complementary subsystem, we can lawfully present our own methodological approach to the peculiarities of formation of the Russian market within its economic transformation. Its main point is as follows.

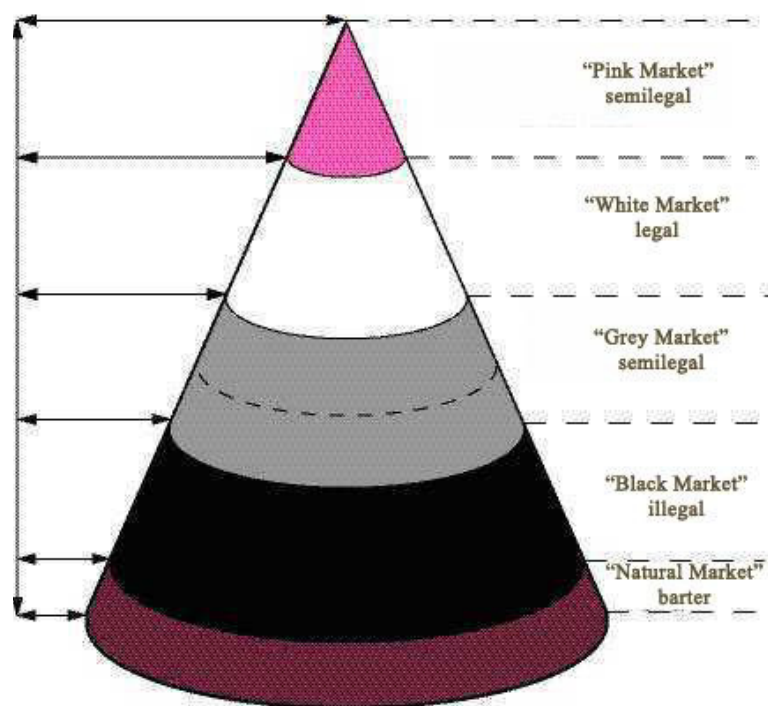


Fig. 1. The structure of Russian market

The official legalization of market relations with the revival of the cooperative movement in the late 80's carried out in Russia the synthesis of X and Y economies - their mutual intertwining. The imposition of market relations in the authoritarian state model gave rise to stratification of the market.

It resulted in a formation of a unique Russian economic pyramid in the form of multi-level market led by the new masters that can be referred as "the pink market", it's a kind of VIP area – "oligarch sector" with a set of preferences, privileges, green corridor on the committed transactions. Its high-quality feature is the regular capital flight, financial drain to the foreign offshore companies, which essentially undermines the investment base of Russia's economy.

The second layer is so a called "white market", the market of recorded transactions reflected in official statistics. It partially includes the operations of "pink" and "grey" markets, particularly the part that the new masters of the country allow to show in their quarterly and annual balance sheets.

The third layer is the grey market of semi-legal operations. This is a folk shuttle trade containing the merchandise and food markets with their semi-accounted operations, incomplete and half-concealed employment, black money in the form of unreported cash as well as all kinds of extortion of money from private business to local authorities' regional needs, for hosting various events and for "other social purposes".

The fourth layer – "the black market" - is an illegal and criminal by nature of transactions, it is the area where the leaders of criminal groups define their own rules regulating factors of production.

The fifth layer represents a non-market sector of barter and natural economy. Barter flourished in all sectors of the economy, as well as within the consumer sector in the Soviet era being a kind of an informal institution of the shadow exchange, smoothing the imbalance of development. "Claw me and I'll claw thee" that reflects a compensatory subsystem of the defects of central planning, of a total deficit, cost disproportions (Ablaev, 2007).

#### **4. The East and West economic management models**

The roots of the vertical stratification of the Russian market, in contrast to the economies of the U.S. and Europe, are in the historical and institutional stability of authoritarian type of government in Russia. It has remained unchangeable for 500 years since the emergence of centralized Muscovite state (Fig.2).

The fact, that within the last 17 years of liberal market transformation the sovereignty of Russia not only did not adopt the Western model of democracy, but rather strengthened the authoritarian and punitive methods of influence on politics and economics, confirm the immutability of the Russian traditions of totalitarian methods of management. This type of power is determined by the natural and geographical conditions of survival, harsh climate, long-lasting winter, the need for collective lands, and thus save a communal environment. S.G. Kirdina rightly notes that in this environment, "... the point of paramount importance is not the competition for resources that can not be fully utilized by the detached manufacturer, but the coordination of social groups in their development and involvement in the economy. Inadvisability of establishing the boundaries of private property in such an environment leads to the formation of an undivided conventional Supreme Property" (Kirdina, 2004).

The rigid centralized power from a single supreme ownership of the resources causes among the ordinary economic players a need for protective technologies, that is special institutions (semi-legal and fully illegal ones) able to implement their private interests with maximum utility. Such a stable system of protection against tyranny and oppression, extortion and repression of civil servants makes possible creating of a separate sector with respect to the most favorable conditions for capital accumulation. It is pink, grey, and black markets that are the homegrown protective institutions of this kind. Each of them has its own transaction costs for the reproduction of the most-favoured-nation status.

Thus, the relatively heavy as to the U.S. and Western Europe economic and natural conditions of a determined by these conditions type of government in Russia has formed special behavioral characteristics of Russian economic entities resulted in the form of informal institutions of defense against the claims of the state and arbitrariness of the officials. These institutions operate on the basis of unwritten informal rules of economic behavior, and relatively stable institutional relationships that were formed throughout the period of economic modernization in Russia since the establishment of a centralized state in the middle of the sixteenth century.

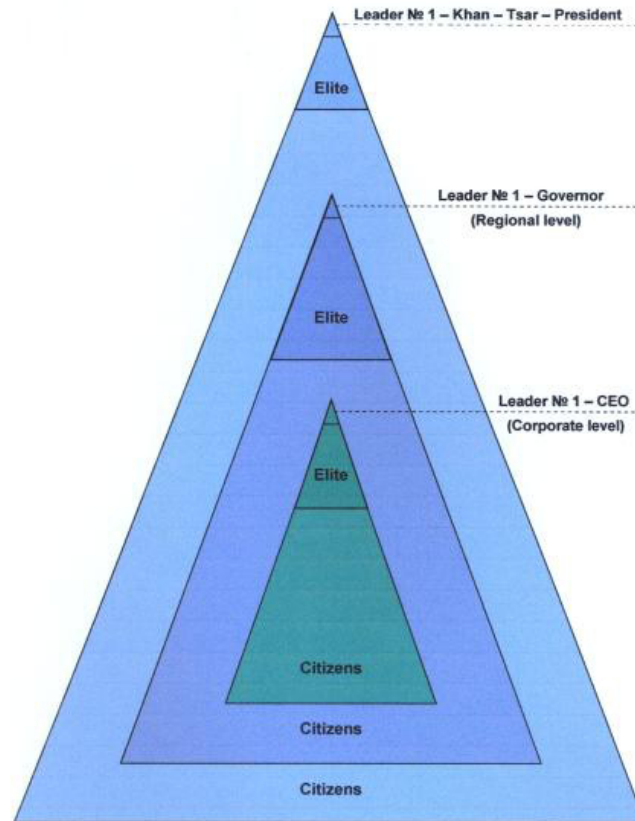


Fig. 2. Basic institutional matrix of the eastern management model and of the subjects' economic behavior

The whole history of the development of Russia's economy was held with the active participation of the state as the supreme entity and was accompanied by a struggle between two principles. On the top there is a struggle for power and the strengthening of statehood among the elites. Below - the struggle for freedom, for their private interests, independence, self-sufficiency, identity. Hence it appears the constant striving for independence from the central government: thumbing the nose behind the bosses' back, and a stash, a hidden income (Prokhorov, 2002). Therefore, Russia's economy is constantly reproduced the mechanism of realization of private interest through the form of a shadow structures of production, distribution, exchange and consumption of deficient resources, regardless of the rulers, their sneaks and publicans. There are so

called "stash" in every region, every enterprise and every energetic entrepreneur and the worker. The "pink market" usually deposits them in the offshore areas. Hence, the contradictory coexistence of two simultaneous values in the structure of management practices and the individual economic behavior - the great power and liberalism.

In the legal aspect it is worth of putting a problem of a constant reproduction of the contradictions between public and private economic rights in the Russian economy. It means that the established and adopted by the state authorities laws, regulations, guidelines are subject to be reconsidered by the individuals, moreover, the private interests in capital accumulation are realized to a greater extent through the informal institutions and rules of economic behavior. This is one of the most important features of the process of primary accumulation of capital in the Russian economy.

Accordingly, the transformation of the economy over the past 500 years occurred on the principle of the pendulum between the strengthening of the dictatorship, centralization and temporary thaws, decentralization, some intensification of liberal tendencies that gave rise to the informal institutional forms and the relationship between business entities. At the same time, it should be recognized that during the Russian state development there was a unique experience of the early democracy - Novgorod Republic in the XV-XVI centuries. Ivan the Terrible physically destroyed it in the process of creating a centralized Muscovite state.

In these circumstances, in the totalitarian model of governance, the only real sovereign and supreme owner of funds and the conditions of production is the government and deputed financial elite: the oligarchs of the federal and regional level. Their monopoly on the most liquid market and business areas do not allow to efficiently develop a complete market environment with equal rules of the game for the rest of its participants.

The type of competition undergoes qualitative changes. Conflict of interests shift to the higher echelons of power, those who is closer to it can influence the allocation of scarce resources, wealth and finance in their favor. Such legacy from the Soviet Union in the form of preserved authoritarian methods of management keeps the owner personally dependent on the mercy of superior management, both at the federal and the regional levels, and in case of a particular enterprise. In such an authoritarian system economic forms of motivation (incentives, focus on result) are of a secondary nature.

Thus, the current Russian model of management is a contradictory combination of autocratic (true of large enterprises and joint stock companies with state shares) and democratic, liberal methods (which more manifest at the level of small and medium businesses).

Democratic market model of USA and Europe, in contrast to the authoritarianism, is a combination of monopolistic tendencies in the global economy on the part of transnational corporations and relatively unrestricted play of private interests at the level of small and medium-sized businesses, with its inherent intra- and inter-industry competition. In this case, the monopolistic unions, mergers and acquisitions in the ongoing concentration and centralization of capital in an increasingly globalized world economy is accompanied by augmented state and supra-state regulation of monopolies treated as the rule of a minority over the majority of enterprises. But the system is balanced and stable (Fig.3).

It should be recognized that at present moment the transformation of Russia's economy is more developed on the basis of the authoritarian model with combination of the elements of market modifications. This means that in a globalizing world economy which has an increasing impact on the transformation of mechanism of the Russian economy management, its evolution is carried out simultaneously by the authoritarian and market models.

The successful and rapid development of the Japanese and the Chinese economy within the recent twenty years suggests that a combination of authoritarianism and market models of governance contributes to the high rates of economic growth and it is a precedent requiring a serious analysis. On this background, the prospect of a Russian model of management as a synthesis of authoritarian and market techniques seems to be



an effective and constructive, on the assumption of reinforcement of the state regulation in favor of the interests of the majority, but not the authorized oligarchs and constantly escalating layer of officials.

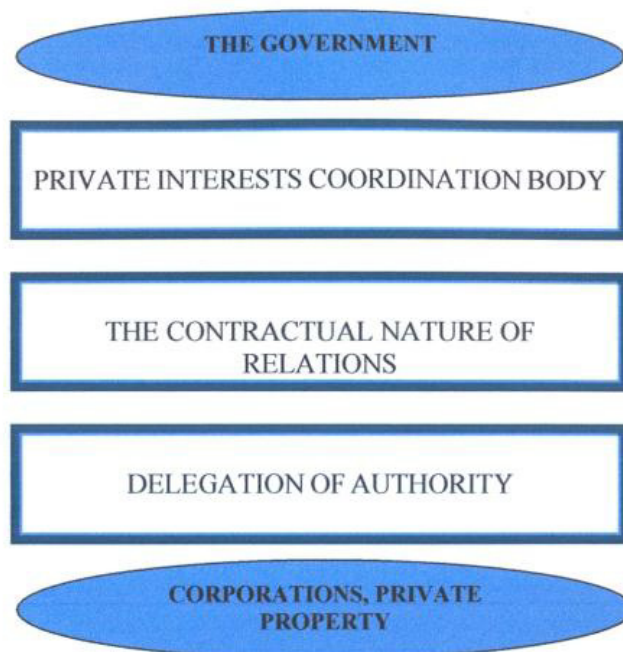


Fig. 3. The Western model of economic management

Thus, Russia's past and present is a fancy weave, a synthesis of western-market methods of economy and Eastern traditions of autocracy and despotism. Each of them has its positive and negative aspects. The art of management consists in the fact that during its process of modernization Russia could manage to combine the latest modern management approaches, technologies of America and Europe and ancient traditions of authoritarianism, their constructive potential capacities of rapid mobilization of resources for the benefit of accelerated development of the country's economy.

Table 1. Comparative characteristics of the eastern and western models of management

Assessment criteria	Eastern	Western
1. Foundation	Above	Beneath
2. Main type of ownership	The supremacy of the state ownership over the factors of production	The private ownership based on the Roman private law
3. Subordination	The domination of the vertical subordination, suppression of initiative from below, personal dependence on the boss	Horizontal coordination, the competitive relationship

4. Methods of decision-making	Authoritarian, centralized	Democratic, collegial
5. Type of state system	Empire	Constitutional Democracy
6. Methods of exploitation	Feudal, basic, non-economic constraint, personal dependence on the boss	Contract, economic
7. Income	Mostly rental in nature: - Rents (payment in kind); - Corvee (mining); - Cash rent; - Natural resource rent (MET Excise)	Entrepreneurial income
8. Human resources policy	Patriarchal clan principle	Professional competence, competitive basis

### 5. Conclusions:

1. The combination of the base of the feudal models and the inclusion into the economic system of capitalist models of development leads to the explosive effect of economic growth in the Russian economy. This is evident in today's Russia, in the last years of development of China, South Korea, Singapore, Malaysia, Brazil and Mexico.

2. Russia is not catching up with western countries and has its own path of development.

3. Evolutionary transition occurs on the western model of management, capitalism is still present in the Russian economy. It is necessary to develop the institution of private property, small and medium-sized businesses while maintaining the existing management model.

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