

# Neoinstitutional Approaches to the Western and the Eastern Models of Economic Management

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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.

*Key-Words:* - Authoritarian non-market X-economy and liberal western Y-economy, eastern and western methods of Economic Management

## 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 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 [1] 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 [2] - 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 (O.Williamson, R.Coase and R.D.North [3]) 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 [4]. 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 [5]. 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 [6].

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. 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.

## 2.1 The Structure of Modern Russian Market

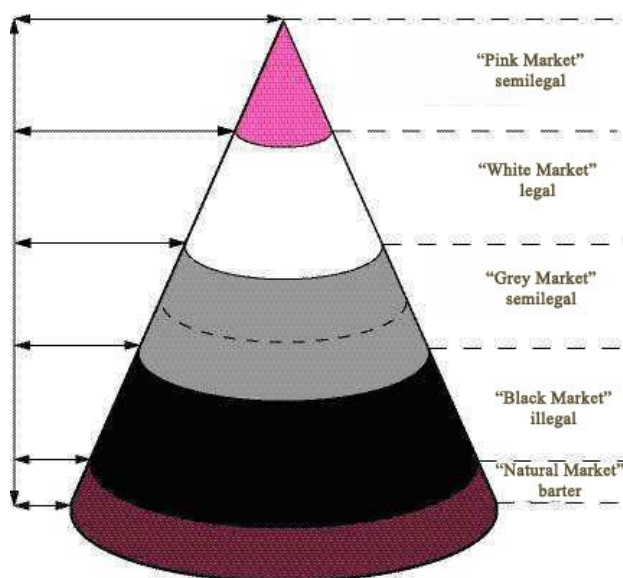
In the development of the approach of S.G. Kirdina [7], according to which X and Y economies interact and coexist within every economic system [8], where one is the base (matrix), and the other is complementary subsystem, we can lawfully present our own methodological approach to the peculiarities of formation of the Russian market within its economic transformation. Its main point is

as follows.

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. See Fig.1.

Fig.1. The structure of Russian market.



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

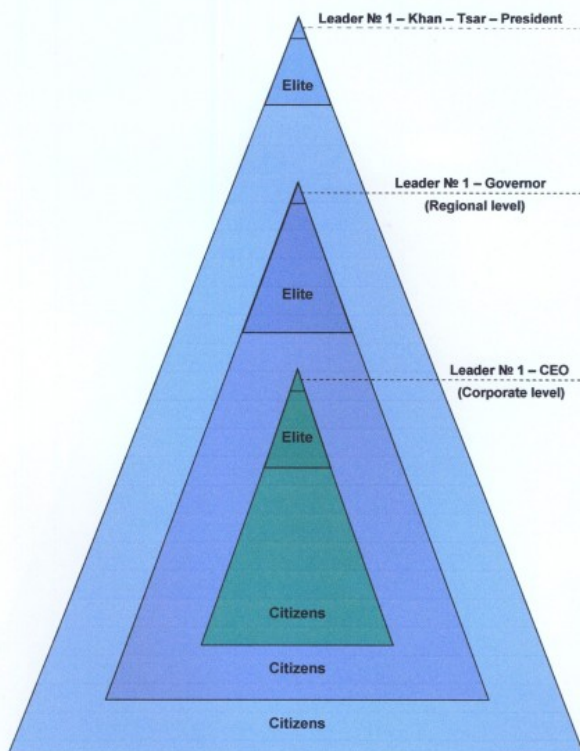
the area where the leaders of criminal groups define their own rules regulating factors of production.

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 [9].

## 2.2 The Eastern and the Western 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).

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

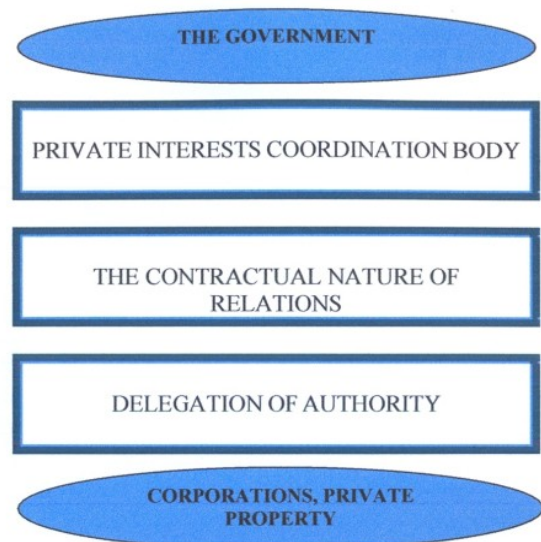


The fact, that within the last 17 years of liberal market transformation the sovereignty of Russia not only did not adopt the Western model of democracy, but rather strengthened the authoritarian and punitive methods of influence on politics and economics, confirm the immutability of the Russian

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"[10].

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).

Fig.3. The Western model of economic management



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.

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.

#### 4 Conclusion

The peculiar features of the eastern and the western models of management can be represented in the following table.

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	Contract, economic

	dependence on the boss	
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

To summarize the above mentioned it is noteworthy to draw some essential 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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