

A Distrustful Economy: An Inquiry into Foundations of the Russian Market

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Strengthening network capitalism implies that a common economic space does not exist even within national borders. Does this mean that one cannot speak about the national market, or economic transactions made on a national scale, in post-Soviet Russia? The first section of this paper is devoted to a discussion of the minimal prerequisites for arriving at an arrangement between the participants of a transaction. Then, the analysis will focus on the parameters of the arrangement that conditions the reproduction of economic institutions in Russia. We will pay particular attention to two basic parameters of the institutional environment: the level of trust and the character of authority relationships.

Minimal Prerequisites of the Arrangement in Economic Activity

Since Adam Smith, economists have been committed to a search for a monistic explanation of the reasons for economic activity. Smith's interpretations of economic motives given in his two most influential books seem contradictory and mutually exclusive. In his early work, *Theory of Moral Sentiments*, Smith discussed moral prerequisites for market play and particularly emphasized the necessity of sympathy between the participants in economic exchanges. By contrast, in his classic work, *Inquiry into the Nature and Causes of the Wealth of Nations*, Smith concentrated his attention exclusively on egoism and a natural inclination for trade. In its modern form, what is known as "Smith's problem" consists in opposing ethics and neoclassical economics. "Economics has two rather different origins: 'ethics' and 'engineering.' . . . The nature of modern economics

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has been substantially impoverished by the distance that has grown between economics and ethics” (Sen 1987, 3, 7).

One could hardly deny that many economic transactions are reduced to a simple search for individual profit. However, the thesis about the universal character of the egoistic motivation is refuted by the existence of pre-capitalistic relationships and a plurality of the models of capitalism itself. The relative importance of the various motives varies in space and time; moreover, they can coexist within a given market society. “Individuals are, simultaneously, under the influence of two major sets of factors—their pleasure and their moral duty (although both reflect socialization),” emphasized Amitai Etzioni. “There are important differences in the extent each of these sets of factors is operative under different historical and societal conditions, and within different personalities under the same conditions” (1988, 63). For example, moral considerations prevail over utilitarian considerations during the first stages of market evolution. “Economy was embedded [till the end of seventeenth century] in a more broad system of social relations” (Polanyi 1995, 75). In modern societies, there still exist some spheres of everyday activities, like volunteering, in which transactions between individuals can be governed by morality or feelings of affinity and sympathy (Schmid 2002).

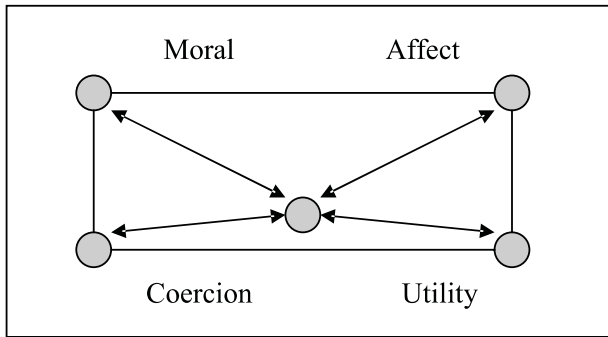
Arguments in favor of a new rapprochement between ethics and economics sound persuasive. Its advocates argue that transaction costs arise as a result of the interference of different motives. According to this point of view, a society populated exclusively by profit seekers would be free of transaction costs. For example, the term “opportunism” reflects a moral evaluation of profit seeking to the detriment of the partner’s interests. When both partners are equally free of moral bonds, the unilateral search for individual profit seems rather natural (Thévenot 1997, 70–73; see also Etzioni 1988, 68).

Morality does not create a credible danger for the market. By contrast, market expansion renders any ethical considerations relative, making them absolutely irrelevant. Michael Walzer referred to “market imperialism” as the “the ability of wealthy men and women to trade in indulgences, purchase state offices, corrupt the courts, exercise political power” (1983, 120). Market imperialism took on especially manifest forms in the post-Soviet countries in the 1990s. Sociological interventions (i.e., focus groups organized in a special way) conducted by French scholars with respect to several groups of Russian businessmen showed that ethical considerations dominated the discourse in 1991–1992. Only one year later, in 1993–1994, statements made by the same parties were characterized by extreme cynicism (Berelowitch and Wiewiorka 1996, 160, 176).

Despite the relative strength of utilitarian motives—they can annihilate moral considerations—such a result calls the stability of the market itself into question. Profit seeking in its “pure” form destabilizes the market. Economic theory accepts that a perfect egoist is unable to produce public goods due to the free-rider problem. Consequently, the interaction of egoists leads to a suboptimal result. In other words, “free exchange can not sustain itself, it must rely on institutions, rules, customs and traditions” (Walzer 1992, 114; see also Fukuyama 1996, 11).

The list of the determinants of economic action was reduced to the two motives for the sake of simplicity. It should include affect and coercion as well. Property, one of the basic economic notions, implies the exercise of control over material resources as well as over human actions. John R. Commons described “an evolution of the notion of property from the ownership of visible things to the ownership of invisible encumbrances on behavior and opportunities” (1939, 237). If we set aside coercion, the list looks very similar to Max Weber’s typology of action. He discussed four types of action: instrumentally-rational, value-rational, traditional, and affective (1968, 24–25). The influence of these four factors on economic action might be visualized with the help of figure 1. Then we reformulate the question about relative importance of each motive in the following way: what is the distance from point X (a particular everyday action) to the four nodes of the quadrangle?¹

Figure 1. Influence of Weber’s Four Factors on Economic Action



Now we turn to the issue of the minimal arrangement between the participants of a transaction. Institutional arrangement between economic units “governs the ways in which these units can cooperate or compete” (Davis and North 1971, 7).² From a functionalist perspective, institutional arrangement enables economic subjects to adjust their expectations, to make them mutually compatible.

We will focus our attention on particular features of the institutional arrangement on which the post-Soviet market is based. These features concern both formal (e.g., law) and informal (e.g., moral) frameworks of transactions. Prerequisites to the arrangement do exist if the afore-mentioned four factors determine the behavior of most economic subjects in the same way. For example, the economic subjects’ geometrical location lies in the surroundings of the same point, say, point X . Even if this point coincides with the “utility” mode, there are no problems in interpreting actions and, consequently, in coming to an arrangement about what these actions should look like. The neoclassical model of the market then becomes the special case of a more general model of economic action. In contrast with the previous instance, divergent motives (for example, some eco-

conomic subjects pay attention to moral considerations—they lie close to the “moral” node, whereas the others are profit seekers and are found closer to the “utility” node) make arriving at an arrangement more difficult, virtually impossible.

Institutional Environment of the Post-Soviet Market

Although each person fixes a proportion between the different motives in an individual way, as a result of the sometimes difficult search for an “internal equilibrium,”³ the parameters of the balance depend on the institutional environment in which the individual acts. Institutional environment influences basic characteristics of the arrangement between the participants in economic exchanges. “Institutions operate at a higher level of generalization than do markets and organizations: they delineate the rules of the game within which such ‘governance structures’ actually operate. As an illustration, the legal system, which most economists would agree to call an institution, is a framework that defines the social acceptability of possible actions, e.g. the ways in which property rights can be implemented and enforced” (Ménard 1995, 163). The preference for the market or, rather, for a type of market (e.g., a network market) derives from the institutional environment reflecting a particular combination of behavioral motives. The basic characteristics of institutional environment (its place on a map such as in figure 1) are an independent variable, whereas the parameters of governance structures, including the market, are a dependent variable. In other words, institutional environment is a set of the values, both formal and informal norms, that influence the combination of different behavioral motives and condition the arrangement as the cement of a transaction.

The influence of institutional environment on institutional arrangements such as the firm, the network, and the market can be conceptualized in the following way. Institutional environment attaches a relative “weight” to each behavioral motive (let p_i be the relative weight of the factor i , for example, the utility, then $0 < p_i < 1$ and $\sum_{i=1}^4 p_i = 1$). The

behavioral motives weighted in this way determine the institutional arrangements that are the most appropriate to a given institutional environment. According to our hypothesis, the network market provides a perfect fit for the post-Soviet institutional environment (Oleinik 2004). When discussing the concept of market capitalism, one needs to differentiate two basic governance structures: first, the network market as a complex of transactions *between* local networks and, second, the local network itself as a system of localized and personified relationships *within* a particular network. In this article, we will concentrate our attention on the network market, that is, on the minimal prerequisites for an arrangement in interactions outside of the network.

If an economic system is stable over the long term, this proves the existence of an arrangement between economic subjects. It is worth emphasizing that the arrangement made in the economic sphere plays a stabilizing role even if its parameters do not coin-

cide with those prescribed in the neoclassical model (i.e., profit seeking as the only significant motive). The command economy has been characterized by an arrangement, too; it resulted from a combination of coercion (fiat) and the moral considerations linked with the communist doctrine. János Kornai pointed out a paradox: the economy of shortage, which has been by definition very far from the Walrasian equilibrium, was nevertheless a stable system. The existence of a particular set of norms allowed the command economy to function and to limit the destabilizing consequences of shortage. Kornai argued that a normal intensity of the plan “comes from the informal arrangements and the customary norms, it has a historically given value” (1990, 79; the constitution of the command economy is also discussed in Oleinik 2002a, 96–98). In his latest works, Kornai has changed his emphasis and has stressed the leading role of coercion and fiat as a centerpiece of the bureaucratic coordination. According to him, bureaucratic coordination (the geometric place of all economic agents that lies in the surroundings of the “coercion” node) nevertheless implies a particular type of arrangement (1992, 98). The situation in post-Soviet Russia after the full liberalization of the economy in 1991–1992 represents another interesting case. Despite deep and extreme lacks of balance, which became apparent as a result of liberalization, an inner stability characterized the institutional environment. The stabilizing effects were due to a deep pessimism and the refusal to take any initiative observed in the behavior of a major part of economic agents (Shlapentokh 1995). In other words, affects and a “negative” moral system (the refusal of all values and norms on which the socialist economy has been based) conditioned a very special kind of arrangement.

The cases considered above convince us that the mystery of arrangement consists in the accordance of the economic agents’ expectations with the real paths in socioeconomic evolution, in the harmonization of their beliefs. If pessimistic prophesies come true, this becomes a guarantee of stability, however suboptimal and unbearable it may be.

Modeling of human behavior provides for accurate insights about the actions of other people. Everyone works out his own “typologies” of the people around him in order to understand them and, hence, to arrive at an arrangement. “The more a behavioral model is standardized and institutionalized, the more there are chances that the expectations and the reality would get harmonized” (Schutz 1987, 33). So a homogeneous motivation of economic subjects facilitates the understanding of their behavior on the basis of modeling and makes the arrangement possible.

As far as the network market is concerned, two elements of the post-Soviet institutional environment provide for arriving at the arrangement and ensure the relative stability of the socioeconomic system as a whole. First, an extremely low level of general and institutional trust ought to be taken into account while analyzing the plans of economic agents. Impersonal distrust means that personally unknown people should not be trusted, whereas the lack of trust in formal institutions structures the interactions with the government and its representatives. Second, coercion continues to play an important role in economic activity although it now takes on less explicit forms than

before. The geometrical place of the economic agents acting on the network market would lie at an equal distance from “utility” and “coercion” and at a maximal distance from “moral” (understood as a set of general, not local, values). In the present article, the reader will only find a description of these elements; the explanation of their evolution requires a special study.

The first and second elements of the institutional environment are closely inter-related. On one hand, distrust in potential business partners leaves no room in transactions for anything but reliance on coercion as a guarantee against profit seeking with guile. On the other hand, the use of coercion, both legal and illegal, further destroys the sources of trust in transactions between equals as well as between superior and inferior. “Between superior and inferior the promise was the involuntary one of protection and obedience. . . . Between equals the promise was the voluntary one of reciprocal service. . . . Promises between equals . . . are a mental expectation arising out of confidence in the promises of governments, courts and business men” (Commons 1939, 249–250). To put it another way, the post-Soviet network market implies a predominantly pessimistic arrangement between its participants. Business that neither trusts other firms nor the state will be weak and deficient in opportunities.

Trust as a Basic Parameter of the Institutional Environment

The basic parameters of the institutional environment include trust because it links the expectations to reality and so renders coordination possible. The following definition of trust is in keeping with this reasoning: trust is “the expectation of one person about the actions of others that affects the first person’s choice, when an action must be taken before the actions of others are known” (Ostrom 1998, 12). Trust as reliability of promises can rely on at least three different sources: rational calculation of the expected utility when trusting a partner versus mistrusting her or him (“utility”), a feeling of sympathy for the partner (“affect”), or a norm following behavior (“moral”). Neoclassical economists usually consider only trust based on rational grounds, whereas recent developments in institutional economics allow us to compare the different sources of trust and even empirically measure their relative importance (Schmid 2002, 757 sq.). Whatever the source is, trust makes the *planning* of economic action possible. Every noninstantaneous transaction, which lasts in time, requires the existence of mutual trust between its participants: they must believe in the promises made by their counterparts. “It is strictly, in the fullest sense of the word, a ‘credit’ economy, for it is a transfer of goods and services for a mere promise to pay a price, whose reality is none other than confidence in the expected behavior of citizens, judges and legislatures” (Commons 1939, 245; see also Brenner 1994, 83).

Technically speaking, the analysis of the issues of trust in economic action raises a quantitative question: which of the partners should be trusted and how much should

they be trusted?⁴ Let us start with the discrimination of trustful and distrustful business partners: *who* can be trusted? The person in whom confidence is placed will fulfill his obligations in three cases: either the promises are self-imposed, or there is a credible threat of retaliation, or there is a third party to the transaction that ensures the respect of the contractual terms (North 1993, 36). In the first case, personal reputation incites the economic subject to behave honestly. In the second case, the right to retaliation favors the production of trust. In traditional and primitive societies, there are no other sources of trust apart from an institutionalized practice of retaliation by the deceived party (Girard 1972, 33).⁵

If there is a third party to the contract, confidence ought to lie with this party. The third party might take part in the interaction in different ways. Thus, the scope of confidence in the third party will vary within broad limits. For example, the mediator has no power to make the parties to a conflict respect his decisions, whereas the arbiter's decisions are compulsory (Le Roy 1993, 89). Douglass North and his colleagues see an important guarantee of the third party's trustworthiness in profit seeking. The arbiter is interested only in making honest decisions; otherwise he would lose his reputation as an impartial judge and, consequently, a good number of his future clients (Milgrom et al. 1990). An alternative way to ensure the honesty of the third party would consist in introducing a fourth party, namely, the subject charged with controlling the third party's actions. One could escape the vicious circle in such reasoning only by assuming that the fourth party (a "supreme guarantor") is completely disinterested and altruistic (Crawford and Ostrom 1995, 594). The model of rational choice once again attains its natural limits.

Next, we turn to the question of *how far* the business partner should be trusted. Between two extreme points, complete distrust and full confidence, lie a series of intermediate cases in which the partners trust each other only to a certain degree. You do not need to trust the seller of a kilogram of oranges to the same degree as the bank holding your four-year deposit of \$100,000. The optimal level of trust will depend on the particular parameters of the transaction. A minimal amount of trust is required for making the simplest deals on the market. To obtain a quantitative evaluation of its level, one has to know the ratio of expected gains and losses (Coleman 1990, 99–104; Kreps 1990, 100; Oleinik 2002a, 101–102). Let L be the loss of an economic subject as a result of the opportunistic behavior of his partner; then G is the gain from the accomplished contract. The following formula helps us to calculate the minimal level of trust according to the assumption that it has a rational nature (P , the subjectively assessed probability that the partner will fulfill his obligations):

$$P > \frac{L}{G+L}$$

A lack of confidence does not necessarily mean a refusal to take part in a transaction. The expectation of the counterpart's opportunistic behavior will probably stimulate the profit seeking with guile on the side of the economic subject himself. The

concept of pessimistic arrangement appears especially helpful in this connection, rich analytical opportunities. When P is less than the minimally required level of trust, transactions are not excluded, but their main task consists in cheating your partner before he can cheat you.⁶ The following model describes the process of reaching the pessimistic equilibrium when the level of trust does not exceed the critical minimum (Dasgupta 2000, 363). We suppose that each player has two strategies—"to behave honestly" and "to cheat." The players' gains are shown in a matrix (table 1). In a one-shot game there are two Nash equilibria, (30, 20) and (10, 10). In a repeated game, the first player can assess the probability P that his counterpart will behave honestly; thus, the first player places his confidence in the second in P percent of cases. Two equilibria can be found in the repeated game: (30, 20), if $P > \frac{1}{6}$, and (10, 10), if $P < \frac{1}{6}$. The issue (10, 10) coincides with the pessimistic arrangement between the players.

Extended trust, in contrast with minimal trust, appears necessary for any continuous and long-term relationship. For example, the intensive and long-lasting cooperation within a network relies on the extended trust between its participants (Humphrey and Schmitz 1998, 33). We will refer to the arrangement made on the basis of the extended trust as "optimistic."

Let us briefly summarize the previous analysis.⁷ The appearance of the third and the fourth parties in the transaction leads to a better understanding of the different forms of trust according to the subject in whom confidence is placed (see, for example, Wintrobe 2001). Interpersonal, or "horizontal," trust (T_h) structures the relations with a socially close and, consequently, personally known partner. This kind of trust largely relies on sympathy for others ("affect"). "It is expected that feelings of sympathy are strongest among relatives and face-to-face friends" (Schmid 2002, 758). Institutional, or "vertical," trust (T_v) might arise in the relationship with the third party: a judge, an arbiter, a mediator, the justice system, or the state as a whole. In contrast with interpersonal trust, general trust (T_g) concerns all personally unknown people, any potential partner, however socially remote he is. In the latter two cases, both "utility" and "coercion" might sustain trust. We need additional empirical studies to discover different sources of trust in its various forms in a particular country.

The three forms of trust are complimentary and substitutive in the same time. One of the sides of the process of modernization consists in the substitution of interpersonal

Table 1. Trust Game

		2nd player	
		To transact honestly, P	To cheat a bit, $(1-P)$
1st player	To transact honestly	30, 20 N_1 ←	5, 5
	To cheat a bit	5, 5 ↑	10, 10 N_2 →

trust for institutional trust. Richard Rose used the term “pre-modern” to refer to the tendencies to solve everyday problems exclusively with the help of close relatives and acquaintances when a rational bureaucracy does not exist. The same practices become “anti-modern” if they result from the willingness to turn aside all formal institutions due to distrust in them (2000, 157–159). It is worth emphasizing that, in a situation where Th has a traditional nature (“moral” as a source), its substitution for Tv renders the arrangement less stable. If Tv is based on rational grounds, the refusal to trust seems to be more “natural” and easy than in the case of traditional trust (Giddens 1996, 44; see also Lallement 1994, 129).

There are several configurations of trust in its different forms (Krishna 2000, 79; Oleinik 2001a, 380; Oleinik 2001b, 161–167). Special emphasis should be placed on the interrelation between vertical trust, Tv , and general trust, Tg . Horizontal trust can hardly be a differentiating factor: Th plays an important role in traditional societies as well as in modern societies (within the family, the network, and so on). As far as the level of Tg is concerned, two sets of factors determine it: variations in the effectiveness of the relevant formal institutions and/or traditional values that are independent of the effectiveness of these formal institutions (Moore 1999, 78). A high level of both Tg and Tv conditions a socioeconomic optimum (table 2). Any economic subject has a choice between various ways to enforce trust, in other words, between alternative sources of trust. A high level of Tg coinciding with a low level of Tv favors the development of the network capitalism based on an “optimistic” arrangement (Fukuyama 1996, 25). The same configuration of Tg and Tv might arise as a result of the “anti-modern” refusal of economic subjects to deal with a repressive state (Stiglitz 2000, 65). By contrast, a low level of Tg coinciding with a high level of Tv proves an active role played by the state in economic affairs. The government substitutes the “invisible hand” for administrative management and control. The case of “economic backwardness” in late nineteenth century Russia appears especially illustrative (Gerschenkorn 1992, 122). Finally, a low level of both Tg and Tv excludes any variant other than the pessimistic arrangement. Moreover, even the pessimistic arrangement is far from assured: it requires at least a high level of Th . If horizontal trust is also lacking, the national market cannot exist and economic processes imply full disintegration.

After proposing the answer to the question how far the business partner should be trusted at the theoretical level, an empirical way of evaluating the level of trust in real transactions must be found. It is necessary to verify the hypothesis about the mostly pessimistic arrangement as the cement of the post-Soviet market. A standard question can be used to evaluate the level of trust.⁸ The data available (*World Values Surveys*) include information about the level of trust in most countries in the world. These data can be used not only to evaluate the level of trust in the post-Soviet Russia on a “cardinal” scale, that is, in an absolute way, it also makes international comparisons possible.

The data available confirm that post-Soviet Russia has an extremely low level of both general and institutional trust, Tg and Tv . Furthermore, the dynamics of the level

Table 2. A Taxonomy of Trust in Its Different Forms

		General trust, T_g	
		High	Low
Institutional trust, T_v	High	The optimum, the rise of national market as a result of the optimistic arrangement	The model of bureaucratic capitalism, including the case of “economic backwardness”
	Low	The model of network capitalism and a variety of ‘anti-modern’ practices	The anomie, the national market as a result of the pessimistic arrangement

of trust indicate the stability of the pessimistic arrangement (table 3).⁹ Concerning the data available on the level of Th , it is still fragmentary and insufficient for elaborating the ordinal scale. According to some experts’ evaluations, the institutions generating Th —first of all, the family—are rather weak in Russia compared with the other countries characterized by a low level of both T_g and T_v , for example, China (Shlapentokh 1989, 168–169; Fukuyama 1996, 28–29). But, on the other hand, the analysis of the perception of the family in post-Soviet society convinces us that the family remains the only trustworthy institution (Oleinik 2001b, 230–245). Thus, a more detailed study of the role that kin and friendly ties play in post-Soviet business is still needed (see, for example, Oleinik 2001b, 305–310; Oleinik 2001c, 14–20).

The inquiry into the reasons of the low level of both T_g and T_v in post-Soviet Russia goes far beyond the scope of the present article. One of the sources of mistrust, an active use of coercion, will be discussed in the following section. This practice kills institutional trust (if the state abuses its prerogatives) as well as interpersonal trust. Mistrust probably has a traditional nature (in this case, its source will be “moral”), but the verifi-

Table 3. The Level of T_g and T_v in a Comparative Perspective, Percentage

Country	General Trust, T_g					T_v	
	1976	1986	1991	1996	1999	1998	1999
Denmark	86	94					
Germany	93	90					
France	92	89					
Great Britain	84	83					
Greece	79	74					
Italy (North)	70	72					
Italy (Sicily)	50	53					
Russia (USSR)		54	36	31,5	32,1	9	3,4

Source: The data for 1976 and 1986, except in the USSR—Inglehart 1990, 35; the data for 1989 and 1991 in Russia—Levada 1993, 112; the data for 1996—*Rossjskaja povesednevnost* 1996, 140; the data for 1998 and 1999—the results of two surveys conducted on the sample of 850 and 1310 respondents respectively by the research team composed of E. Gvozdeva, A. Oleinik, S. Patrushev, and A. Hlopin.

cation of this hypothesis would require a comprehensive historical survey. Finally, the low level of T_g and T_v can be attributed to ineffectiveness of the relevant formal institutions (source “utility”) such as system of justice, police, and so on. Research into this last issue is particularly abundant in mainstream literature on the post-Soviet transformations (for a critical survey, see Oleinik 2002b).

Type of Authority as a Parameter of the Institutional Environment

Uncertainty prevails in the institutional environment with the low level of T_g and T_v because economic subjects appear unable to plan their actions in a rational way: they cannot be sure of business partners. There exists a pressing need for finding at least minimal assurance that obligations will be fulfilled. Moreover, the mutually alienated individuals are ready to sacrifice a very important part of their freedom in favor of anybody who will give them such guarantees (Afanasiev 2000, 24, 82).

According to representative surveys conducted regularly by VCIOM (all-Russian Center for Studying Public Opinion), more than 70 percent of Russians prefer the alternative “order, even at the expense of the democracy” to the alternative option, “democracy, even if it threatens order” (for a discussion of these results, see Oleinik 2001b, 254–256). Accordingly, the phenomenon of the dual relation to the state is explained. On one hand, Russians’ distrust of the state takes extreme forms.¹⁰ On the other hand, “in such a society people will fear and distrust the government while simultaneously believing in the need for a strong state to control their fellow citizens” (Fukuyama 1996, 99). A mistrustful society can exist only if it relies on coercion as a key element of its institutional construction, which clarifies our interest in this issue in the framework of the present analysis.

As in the case of trust, relationships based on authority exist in any society, although they can take different forms. Consequently, type of authority meets the requirements set for differentiating criteria. To compare different institutional environments on the basis of the criterion of authority, one needs to propose its typology. Russian does not allow for differentiating between the two principal cases of control over an individual’s actions by another subject that lie at the heart of the matter, whereas English strongly differentiates between power and authority. By contrast, there exists only one Russian term describing both cases: *vlast*. “‘Power’ is the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests. ‘Domination’ is the probability that a command with a given specific content will be obeyed by a given group of persons” (Weber 1968, 53). The key difference involves either *imposing* one’s will on another person or *persuasion* in the necessity of obedience.¹¹

The difference between power (imposition of the will) and authority (submission as a result of persuasion) is deeply rooted in common law. Commons correlated the law of encumbrances with power, the law of opportunities—with authority. “The law of encum-

branches on behavior is the law of right and duty; the law of opportunities for behavior is the law of liberty and exposure. . . . Command and obedience are thus legally different from persuasion or coercion, although psychologically they may look alike, for in the one relation the opposite party has no lawful option" (1939, 235–236).

This difference has also a purely economical meaning. Claude Ménard argued that the intensity of submission varies from one governing structure to another. For example, authority structures the business relationships in the case of relational contracting, whereas fiat and, consequently, power, characterize hierarchies (1996, 4–5; 1998, 8). Operating only with the two forms of authority is not sufficient for classifying all cases of submission to the other's will in economic activity. James Coleman, in particular, spoke of conjoint, disjoint, and imposed types of authority and also differentiated between simple and complex authority relations (1990, 69–82). The distinction of personified and impersonal authority, that of economic and political power, seem very important, too.

In the case of *conjoint* authority, the actor believes that he will be better off by following the other's leadership. Initially "the individual holds the right to control over a particular class of his own actions . . . and holds the right to transfer that right to another" (Coleman 1990, 69–70). It should be noted that the exercise of conjoint authority is limited to the well defined in advance spheres and those who hold the right of control cannot extend it beyond these limits. The contract between patron and client is probably the best illustration of conjoint authority. In the case of *disjoint* authority, the actor transfers rights of control without holding the belief that his own intentions coincide with the other's interests. The actor sells his compliance with the other's orders in return for some extrinsic compensation. There is no need for interests to coincide. In most cases, employment contracts rely on disjoint authority: the employees accept the owner's rights of control in return for a fixed salary. Both conjoint and disjoint types of authority derive from domination, in other words, persuasion conditions submission. By contrast, *imposed*, or involuntary, authority relates to the exercise of power. It is a kind of blackmail: "The superordinate agrees to withhold an action that would make the subordinate worse off in return for the subordinate's obeying the superordinate" (Coleman 1990, 71).

The *simple* character of authority means that the actor transfers rights of control directly to the subject who will exercise these rights. In the case of *complex* authority the superordinate can delegate the right of control to his representative, or lieutenant. For example, in large bureaucratic organizations, the owner delegates rights of control to managers. *Personified* authority implies that rights of control are transferred to a concrete person. By contrast, the concept of *impersonal* authority describes the exercise of the right of control by any subject who holds a particular position in the organizational hierarchy. The superordinate's name does not matter there. "The members of the organization, insofar as they obey a person in authority, do not owe this obedience to him as an individual, but to the impersonal order" (Weber 1968, 218). The scope of *economic*

power is limited to material objects—scarce resources. Property rights structure economic power. *Political* power refers to the relationships of domination and submission between human beings.

On the basis of the typology described above, one can better specify the relations of domination and imposition specific for the post-Soviet institutional environment. We will concentrate our attention on the relations between the economic subject and the state instead of taking into consideration the exercise of control in relations within the firm and between firms. The interactions with the state determine the basic parameters of domination and imposition at lower levels of the institutional structure; they structure network capitalism as a whole system. We have previously shown that the low level of T_g and T_v does not exclude the transfer of rights of control to another subject, but it modifies this process. Power in post-Soviet countries has an imposed, simple, and personified nature. As far as the last criterion is concerned, economic and political powers appear closely interrelated.

To prove the thesis about the imposed character of the transfer of control, one should take into account the following arguments. First, guarantees of the coincidence between the rulers' intentions and the ordinary people's interests are still lacking. Generally speaking, such guarantees consist in the holding of free elections and in the existence of a civil society. The famous paradox of voting persuades us that the procedure of free elections does not exclude the rise of imposed power, since the results of free choice in politics can be manipulated. As far as the institutions of civil society are concerned, they counterbalance and limit the power of the state representatives. Ordinary citizens can interact with the bureaucrats on equal terms only by joining their forces and becoming a collective actor. "Individuals can reason best, and are lest subject to manipulation and to government intervention, when they are members of a community" (Etzioni 1988, 138; see also Touraine 1992). However, different studies demonstrate that social movements that are independent from the state have not yet transformed into a significant political force in post-Soviet countries (see, for example, Oleinik 1996). As a result, the actions of those who hold political power are not at all limited by ordinary citizens. Thus, there are no obstacles for the transformation of *any* authority into imposed power.¹² The history of the Russian state is rich with examples confirming this thesis. Whichever group holds political power, its perception by ordinary citizens remains unchangeable. In their minds, political power is associated with despotism, arbitrariness in the exercise of rights of control. This fact permits Alexander Hlopin to speak of a unilateral dependency of subordinates vis-à-vis the state representatives (1997, 67–68). The imposed character of the state's control becomes one of the sources for networking in the post-Soviet economy. The networks not only get in line there with the traditional relations but they also they protect economic subjects from the uncertainties related to the bureaucrats' arbitrary actions.¹³ Economic subjects show their willingness to obey only if the government agrees to withhold a regulation that would make them worse off,

in other words, they face not the choice between the best and the second best but that between the worst and the least worst.

The second argument proving the imposed nature of authority relationships in post-Soviet Russia concerns the degree of differentiation between various spheres of everyday activities. A modern society implies the existence of clear borders between the spheres of everyday life. "The conditions of modernization include the functional differentiation of the sub-systems, in particular, the separation of politics from religion, that of economy from politics, the rise of the autonomous spheres of science, art and private life" (Touraine 1992, 237). Regarding the Soviet and the post-Soviet situations, one can see that the differentiation of the subsystems has not been achieved yet (Oleinik 2001b, 245–252). For example, the sphere of privacy does not appear well protected from an unwanted invasion of the public sphere at the workplace and even at home. At the workplace, relations within a workers' community (*trudovoj kollektiv*) retain some traces of the traditional peasant community (*obshchina*): the events related to private life can easily become publicly known and discussed. Sometimes, the Soviet and post-Soviet managers even rely on this organizational feature to facilitate control over the employees. Youri Levada and his colleagues defined in this connection two ideal types of the workers' community. In the case of so the called "*kolkhoz*" the employees themselves initiate the intervention into private affairs, whereas in the case of the *sharashka*, the supervisors feel free to control the private lives of their subordinates (Levada 1993, 94). As far as family life is concerned, the right to keep some aspects of the individual's personal life closed to other family members, even a spouse, cannot always be respected, in particular, due to housing conditions that are strained according to Western standards (Shlapentokh 1989, 181). In a final account, the lack of clear borders between the spheres of everyday life facilitates the transfer of authority from one subsystem to another. In such cases, authority naturally transforms into imposed power. "Dominance describes a way of using social goods that isn't limited by their intrinsic meanings or that shapes those meanings in its own image" (Walzer 1983, 10).

The incomplete differentiation of the subsystems renders the transformation of political power into real economic power and vice versa. This issue merits special consideration. The third argument in favor of the thesis about the drift of authority into power in the post-Soviet context consists exactly in the interweaving of political and economic powers. It continues the second argument without being reduced to that reasoning. The methods of the limitation of political power appear insufficient and inefficient in the marketplace, and vice versa. The development of market competition does not ensure democratization in politics, whereas democratic institutions can coexist with monopolies. A symbiosis of political and economic powers appears stable because neither competition on the market nor voting procedures in politics, if they are taken separately, are sufficient for influencing and limiting the exercise of such kind of power.

The politico-economic symbiosis takes two forms in the post-Soviet institutional environment. On one hand, one observes a conversion of property rights into political

power. This process has been discussed in great detail by Marxist writers.¹⁴ On the other hand, political power transforms into property rights. The concept of power-property (*vlast'sobstvennost'*), initially formulated to describe the relationships during the period of "oriental despotism," seemed to Rustem Nureev to be equally applicable to the post-Soviet studies. "It relates to a complete fusion of power and ownership: the political leadership assures in the same time property rights on key resources" (2001, 8-9; see also Afanasiev 2000, 45).

As stressed previously, the imposed character of power means the unilateral dependency of economic subjects vis-à-vis those who hold the right of control. This dependence has a negative side as well as a positive one. The negative dependence means limitations and prohibitions set up in the economy by the state representatives. Different limitations are immanent for imposed power because its stability requires, in addition to violence, withholding some of them which would make the economic subjects especially worse off.

If a relative consensus is reached among post-Soviet scholars about the negative side of dependence, the positive side still gives rise to discussion (see, for example, Oleinik 2002b, 41-43).¹⁵ By *positive dependence*, we mean a lack of autonomy in economic action, the willingness of economic subjects to obey those state representatives with which they have privileged relations. In other words, positive dependence results from the efforts of economic subjects to transform the imposed power into disjoint or even conjoint authority *in an individual way*. Thus, local transformation of authority relationships means that the economic subject looks for the competitive advantages granted by the state representatives to the detriment of the other businessmen. In cost/benefit terms, the use of political power to strengthen positions on the market looks very attractive. One dollar spent on a bribe sometimes has a higher rate of return than the investments in production and distribution (Etzioni 1988, 231). "Who attained the most success?" wonders one of the Russian businessmen interviewed. "Not those who had a lot of money, but those who were former bureaucrats in the [Communist] party and the komsomol, who had privileged contacts with the administration. In any way, the money is distributed by the state. The administration controls their flow. The question about whether to make a contract with the administration or not is like the question about whether to be or not to be. I know this for sure: I've worked with the administration for some time. The department of education, the department of social security and many others play the role of big brother for us. They distribute a huge amount of resources each month. If I'm one of 'theirs,' they give me the money and I can live on it, if not—I'm waiting for the payment of my services several months. It's a very simple arithmetic."¹⁶ It is not surprising that more than half of Russian businessmen acknowledge an active role played by business itself in establishing privileged contacts with bureaucrats and in including them in the business networks (Radaev 1998, 59). Participation of bureaucrats in the networks means the solution of the problem of imposed power in an individual way: the authority relations change their nature only within a local network. As a

result, the market loses its autonomy; it becomes increasingly dependent on external support. Some scholars describe such a situation in terms of “assisted economy.” For example, the assisted economy has existed in the Southern regions of Italy where the most profitable enterprises are closely connected with the municipal and the state bureaucracies (Cesoni 1995, 19, 168).

A more radical transformation of imposed power into conjoint authority would imply the coincidence between the bureaucrats’ priorities and the economic subjects’ interests. Since the simple participation of bureaucrats in a network does not assure a harmony of interests, there is a need for forming a personal union between businessmen and the state representatives. According to Yakov Pappé, the biggest vertically integrated business groups (the concept of business group lies very close to that of network) in Russia, Gazprom and Lukoil, can be considered as examples of the personal union in the above-mentioned sense (2000, 98, 138). In both cases, authority has a simple and personified character because bureaucrats change their attitude toward economic subjects in an individual way.

In conclusion, we will discuss the emergence of total power as one of the paths in the evolution of imposed power. Total power tends to “regulate all the aspects of everyday life in an explicit and detailed way” (Goffman 1968, 41). One can formulate three heuristic causalities in relation to total power. First, the more power is imposed, the more it has a total character. In its most extreme form, imposed power excludes any “deal” with economic subjects (e.g., the bureaucrat agrees to withhold a regulation that would make the economic subject worse off in return for obedience); it relies exclusively on violence. The interaction of inmates with prison guards illustrates this point well. It should be noted that the more severe the security level, the more often violence is used by prison guards to affirm their power (Marquart 1986). Second, the less differentiated the spheres of everyday life are, the easier one can control every aspect of everyday activities. Totalitarianism “is the *Gleichschaltung*, the systematic coordination, of social goods and spheres of life that ought to be separate” (Walzer 1983, 316).

The tendency toward total power has, fortunately, its own limits. Control is never full and absolute even in prison, one of the closest to the ideal type of total power institutions (Sykes 1958; Goffman 1968; Oleinik 2001b). The explanation consists in nonzero transaction costs, especially the costs of monitoring and control. The more total the control, the higher the costs of monitoring. Total power renders the principal-agent problem, which arises in any case of imposed power, particularly intense. The noncoincidence of the interests of principal (the state representative) and agent (the economic subject) motivates agent to behave opportunistically, to shrink (Coleman 1990, 152). In the case of total power, the shrinking takes on extreme forms (because the more encompassing the control, the higher the probability of the noncoincidence between the interests of principal and agent), and principal has no choice but to increase control further. Thus, total power is a self-sustaining phenomenon. In the usual case, imposed power does not take completely total form; one should speak rather of an equilibrium

between, on one hand, the principal's willingness to impose his will on agent and, on the other hand, the costs of monitoring and control. Probably, this is one of the very few optimistic conclusions that could be drawn from the analysis of the institutional environment based on the pessimistic arrangement.

Summary

Economic behavior is never determined exclusively by profit seeking. Among other determinants, there are affects, moral considerations, and coercion (in its direct, most visible, forms, as well as in hidden forms). Historical periods and countries differ by a particular combination of these factors. An arrangement between economic agents "weights" these factors structuring everyday economic transactions. The shape of the arrangement depends upon institutional environment. In turn, institutional environment determines a series of governance structures (i.e., market, network, firm, and so on). Basic criteria allowing us to compare different institutional environments include (1) the level of trust (personal, institutional, and general) and (2) the type of authority (conjoint, disjoint, imposed—the last type corresponds to power in Weber's terms—simple and complex, personalized and impersonal, economic and political). According to these criteria, the post-Soviet market could be defined through a "pessimistic" arrangement (an extremely low level of both institutional and general trust and a politico-economic type of power).

Notes

1. Allan Schmid asks a very similar question: "Most researchers acknowledge that people usually act from a mixture of motives. But there is little literature measuring the proportions of different motives in the mix" (2002, 749).
2. Three types of institutional arrangements are usually considered: the market, the organization (the firm), and hybrid forms (Ménard 1995).
3. "People seek a balance between their moral commitments and their pleasures" (Etzioni 1988, 67). When the balance is still not found, or the individual is unable to find it, he lives a deep intrapsychic stress. The feeling of guilt accompanies any deeds done in the conditions of a provisory nonequilibrium (71–73).
4. A legal approach is less appropriate for the quantitative perception of the issues of trust. The common law doctrine states that "where the parties are in a confidential relationship, equity requires the person in whom confidence is reposed to make full disclosure of all material facts in respect of any contract he may make with the other party" (James 1989, 323).
5. The words of the former president of a large Russian financial company are worth being cited: "I've always tried to put the conflict in a material way. If I had some losses, I've tried to pay them back, but without any coercion. . . . You can immobilize the resources of these guys, their shares, their real estate, something else. This is a right way to settle the conflict." The interview was conducted in the framework of a research project financed by the *Institut des Hautes Etudes de la Sécurité Intérieure* (IHESI), Paris, in 2000–2001. The research team was composed of Anton Oleinik, head, Carine Clément, Evgenia Gvozdeva, Natalja Aparina, Mikhail Minin, and Vadim Prokopiev (see Oleinik et al. 2005).

6. "For it is, so to speak, a game of Snap, of Old Maid, of Musical Chairs—a pastime in which he is victor who says 'Snap' neither too soon nor too late, who passes the Old Maid to his neighbour before the game is over, who secures a chair for himself when the music stops. These games can be played with zest and enjoyment, though all the players know that it is the Old Maid which is circulating, or that when the music stops some of the players will find themselves unseated" (Keynes 1967, 154–155).
7. It is interesting to compare the level of trust as the basic parameter of institutional environment with the more conventional indicators used in the neoclassical economic theory. In particular, the concept of social capital is in keeping with the attempts to speak of trust in a language understandable for economists. The adepts of this approach suppose that economic subjects possess social capital along with physical, financial, and human capital. Social capital permits them to better use the stock of capital in its other forms. Consequently, a functional definition of social capital seems the most appropriate: it refers to a system of relationships and contacts reducing transactions costs in contract making (Coleman 1990, 302, 304; Burt 1992, 58). The economic subject deprived of network connections can not get a maximal profit: he has no access to the information about the best uses of "traditional" (physical, and so on) capital, and he can not economize on transactions costs in the same way as the network members do. "Social capital refers to such elements of institutional environment as social networks, social norms and trust, which favor the coordination and the cooperation for the sake of common interests" (Putnam 1995, 78).

Simplicity and commodity of the concept of social capital have a reverse: it gives rise to a series of methodological and practical problems. First, in contrast with physical and financial capital, social capital lacks for two very important characteristics: the alienability and the positive discount rate. Moreover, an intensive use of social capital does not lead to its devaluation; it raises the value of social capital (Arrow 2000, 4; Solow 2000, 7). An attempt to overcome these difficulties and to consider the "factory" of trust at work recently made by Schmid (2002) concerns mostly one source of trust, sympathy for others ("affect"), and, consequently, only one form of trust, *Th*. Second, there are no "objective" sources of the information about social capital like prices, which would be suitable for the econometric analysis. Despite the fact that a series of econometric tests confirm the existence of a weak, yet statistically significant correlation between the level of trust and the basic economic indicators (Helliwell and Putnam 2000; La Porta et al. 2000), many economists still do not believe in the possibility of verifying the hypothesis of social capital in a statistical way. Third, sociologists doubt whether the analysis of trust should be reduced exclusively to the issues of economic efficiency. "The cultural heritage becomes a kind of capital if and only if culturally dominant groups transform their advantages in gains on the market" (Reynaud 1989, 91). In other words, social capital represents only one aspect of trust among many others. Thus, it is hardly reasonable to use the "economic derivation" of trust as a parameter of institutional environment.

8. "Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people?" A more elaborate approach based on ranking the motives to trust is proposed in Schmid 2002.
9. For a comparison of the level of Tv in the post-Soviet and the East European countries, see Rose and Mishler 1995. The authors stressed a skepticism dominating in these countries; this proves the hypothesis about the pessimistic arrangement as the cement of the post-Soviet market. Here are the data drawn from a series of surveys conducted in the following target groups: businessmen, students in law, and prisoners (individuals sentenced for different crimes):

Country	General trust, T_g			Interpersonal trust, T_h			Institutional trust, T_v		
	Entrepr.	Students	Prisoners	Entrepr.	Students	Prisoners	Entrepr.	Students	Prisoners
Russia	25,8	32,5	14,6	82,2		13,7	8,2	7,7	9,9
Kazakhstan			17,7			14,4			15,9
Canada		76,4	37,5		92,8	15		30,2	15,8
France	43,3		45,8	63,3		20,3	23,3		

Source: The data for entrepreneurs: 219 Russian and 30 French businessmen were interviewed in 2001 (Oleinik et al. 2005); the data for prisoners: Oleinik 2001b and Oleinik 2002c; the data for students: 117 Russian students and 195 Canadian students were interviewed in 2001 by the research team composed of A. Oleinik, E. Gvozdeva, A. Minin and A. Burbulis. To evaluate the level of T_h , the following questions were asked: "Do you trust your business partners?" (to the businessmen), "Do you trust the people you meet at the university?" (to the students), and "Do you trust other inmates in this facility?" (to the prisoners).

10. It should be mentioned that we do not speak here about personalized trust in some state representatives. A high level of personalized trust, say, in the President, does not exclude mistrust in the state as a formal, depersonalized institution.
11. Imposition does not necessarily mean violence in its open and the most cruel form, physical violence. According to the "critical" sociology, the submission to the other's will might result from a "symbolical" violence (e.g., the imposition of a world view at school) (Bourdieu and Passeron 1970, 51). The academic milieu does not lack for violence, too, although it hides behind the apparently "neutral" ritual of polemics (Bourdieu 1984, 39; Oleinik 2003).
12. We can put forward the following hypothesis that requires additional discussion. During the Russian-Soviet-post-Soviet history the character of authority has not been changed a lot. At best, there were fluctuations from imposed power to disjoint authority and vice versa (Bereelowitch and Wiewiorka 1996, 73–74; Oleinik 2001b, 222–229). For example, disjoint authority existed during the Brejnev's rule (1970s–1980s). The State ensured a minimal standard of living, however unsatisfying it may appear retrospectively, in exchange for obedience and political loyalty of ordinary Soviets.
13. "Usually in this part [clauses related to the force majeure,—A.O.] one speaks of war, earthquakes, fire, inundation, am I right? Of different kinds of natural diseases, isn't I've seen in a contract the following clause: 'the government decisions are a force majeure' (*laugh*). In other words, the laws and the government regulations are perceived as a force majeure" (Oleinik et al. 2005).
14. Karl Marx was probably the first to emphasize that property rights, or power over material objects, hides power over human beings. His key concept of commodity fetishism was elaborated to deal with this issue. "A commodity is . . . a mysterious thing, simply because in it the social character of men's labour appears to them as an objective character stamped upon the product of that labour" (1988, 82). Michael Walzer described a more apparent case of the transformation of property rights into power over human beings. He analyzed the efforts of G. Pullman, the inventor of a new type of the railroad passenger car, to become a political leader for his employees living in Pullman City, Illinois (1983, 295–299). The modern history of Russia is rich in similar examples: major corporations settle down and administrate their villages for high-ranked employees in Moscow's suburbs, they try to take control over municipalities if the majority of population works at their factories (Yukos, Lukoil and Norilskij Nikel are especially known in this respect).
15. From a methodological point of view, the notions of positive and negative dependence are correlated with those of positive and negative freedom. Negative freedom is understood as the absence of external constraints. Positive freedom implies that the individual sacrifices a part of his freedom to reduce the existing inequalities and to fight against poverty through political participation (Rose 1995, 520–522; Touraine 1994, 22, 53). The limitations inherent to posi-

tive freedom occur as a result of the voluntary sacrifices made to attain some objectives important for the individual.

16. Interview with the owner of a small firm conducted in the framework of the IHESI project (Oleinik et al. 2005). These observations are confirmed by the recent legal proceedings against the owners of the Yukos (summer 2003 onward), the largest Russian oil company in the past. As soon as their privileged relationships with the high-ranked State officials have loosened up, the future of their business becomes uncertain, to say at least.

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