

Public management in Russia: changes and inertia

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Abstract

Public sector reforms in Russia are typically half-hearted attempts at privatization. At the same time, there are attempts to bring about bureaucratization in a Weberian sense by increasing the role of formal rules. Given the Russian tradition of disloyalty to rules, however, all attempts to establish some sort of *Rechtsstaat* (law and order) are likely to fail in the short run. It is essential for the government to build social capital through more public consultation and improved accountability to the public. But the development of civil society in Russia will take time. In the short term, creating new kinds of management teams could be the next best approach to solving the resource and management problems in the public sector. © 2001 Elsevier Science Inc. All rights reserved.

Over the past two decades, administrative reforms in the Western world have been shaped by the ideas of New Public Management (Kickert, 1997). Improvement of performance in the public sector and in the economy as a whole has been achieved by increasing administrative flexibility, giving public employees more autonomy and encouraging businesslike behavior. In countries where these methods have been used, the benefits are evident (Loeffler, 1997).

During the same period in Russia, attempts have been made to radically reform public administration on the whole and public management in particular. The actions initially were aimed at improving the performance of the economy, and were conducive to the collapse of the Soviet Union and the communist system.¹ They resulted in enormous social, legal, political and cultural changes. At the same time, the administrative reforms themselves have not attained the objectives that were set for them. This fact is recognized by most Russian experts, regardless of their political orientation. For instance, a recent analysis by the well-known Council on Foreign and Defense Policy has shown that many of the current authorities have managed to preserve the Soviet Union's, or even Stalin's, worst adminis-

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trative methods (Soviet po vneshney i oboronnoy politike, 2000). This is often explained by referring to particular faults in the system of government, but reasons for the present state of affairs can also be found in Russian history. The aim of this paper is to identify these reasons along with the principal characteristics of Russian administrative reforms. In Russia, it is difficult to separate administrative reforms from major political, constitutional, or cultural transformations.² For example, Gorbachev's *perestroika* is not easy to divide into distinct administrative, economic, and political elements (Caiden, 1991). Since the authorities cannot fully control the course of events, it is not accurate to consider an administrative reform simply as a reorganization of structures and procedures in the bureaucracy designed to improve operational performance. The structures and procedures to be changed are part of larger institutional arrangements that have been relatively constant. During recent decades in Russia, administrative reforms existed mainly as plans and declarations of governments, and did not have a great impact on actual institutional arrangements. When evaluating administrative reforms in Russia, it is very important to take into account all of their consequences, including indirect and unintentional ones.

In the first section, I will show that the former Soviet and present Russian authorities, because of their concerns about the economy, have pressed for the reinforcement of control both outside and inside the state administration. These efforts for the most part have failed. The second section discusses the noncontrollability of public officials in the context of the Russian tradition of state administration. In the third section, the administrative situation in the 1970s and 1980s is discussed, taking this period into account as the basis for the actions of the majority of present civil servants and as the starting point for the recent reforms. The fourth section summarizes the main administrative reforms of the 1990s. The fifth section considers the possibility of gradual improvement of public management by starting with a less than perfect solution.

1. The first phase of administrative reforms: reinforcing control

The period of impressive change that has been going on in Russia since the mid-1980s stands out in sharp contrast to the previous period, which is generally referred to as "the stagnation." This label describes the stability of political and economic institutions and the conservatism of official ideology and culture, as well as the invariability of administrative structures and officials.

The present situation is not like this. Yet, from the point of view of economic growth rates, there are more grounds for calling the late 1990s a period of stagnation than the early 1980s. Economic stagnation in recent years has followed a deep drop in production. According to official data, in 1981–1985 the USSR national income was increasing at a rate of approximately 3% per year. According to alternative evaluations, the increase was, on average, less than 1% per year, but still positive (Aganbegyan, 1988, pp. 9–10).³ During the first 5 years of the existence of an independent Russia (1992–1996), the GDP consistently decreased. The official Russian statistical agency showed a stabilization of production in 1997, but the scene was set by highly speculative activity in the financial market which led to the market's

Table 1
Some economic indicators in Russia* (percent change comparing to the previous year)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-------------------------|-------|-------|-------|-------|------|------|-------|-------|
| GDP | -14.5 | -8.7 | -12.7 | -4.1 | -3.4 | 0.9 | -4.9 | 3.2 |
| Industrial production | -18 | -14.1 | -20.9 | -3.3 | -4 | 1.9 | -5.2 | 8.1 |
| Agricultural production | -9.4 | -4.4 | -12 | -8 | -5.1 | 1.5 | -13.2 | 2.4 |
| Investment | -39.7 | -11.6 | -24 | -10 | -18 | -5 | -6.7 | 4.5 |
| Real income | -52.5 | 16.4 | 12.9 | -15.1 | -0.7 | 5.8 | -16.9 | -15.1 |
| Retail prices | 2508 | 840 | 215 | 131 | 21.8 | 11 | 84.4 | 36.6 |
| Unemployment | 5.2 | 6 | 7.7 | 9 | 9.9 | 11.2 | 13.3 | 11.7 |

* Here and later, if another source is not specifically mentioned, the official data of the State Statistical Committee of the Russian Federation are given.

collapse in August 1998. As a result of this crisis, the Russian government was not capable of paying its external debt, major Russian banks went bankrupt, and real income declined.

In 1999 some positive changes occurred in the Russian economy, including a rise in industrial production. But the damage from the 1998 financial crisis has not been fully repaired. The positive developments were caused mostly by external factors such as an increase in the price of oil, the main Russian export product.

Russian experts believe that a key precondition of long-term economic growth is effective public administration (e.g., Yasin et al., 2000). The struggle to overcome economic depression and improve the use of resources is regarded as a major factor in determining the administrative and political reforms of the 1980s. For example, as Mikhail Gorbachev observed in his memoirs: "Maybe there was no discord only in one thing, in acceptance of the fact of the general weakening of economic governing and its consequences: laxity and irresponsibility in economics and in all levels of management" (Gorbachev, 1995, vol. 1, p. 335).

The first decisive attempt to improve economic performance took place under the leadership of Yuri Andropov, who in 1982 became Brezhnev's successor as head of the Communist Party and the Soviet state. This tough leader, who had earlier headed the KGB, immediately began a discipline strengthening program. The main hindrance to effective functioning of economic and political systems was thought to be the poor performance of party and government officials, as well as managers and workers in the state enterprises. Thus, the first reaction to economic stagnation was a kind of administrative reform that envisioned strengthening the accountability of subordinates towards their superiors. At the same time, the range of independent action for top managers was somewhat widened, although violating the established range was punished even more severely than before.

Andropov's campaign of discipline strengthening was interrupted by his death and the slack governing of Chernenko the following year. After that, the country was headed by Gorbachev. He had been promoted by Andropov, and as far as internal policy is concerned he is perceived as Andropov's direct successor.⁴ The most noticeable innovation during the first months of the Gorbachev regime was a set of economic and administrative measures that were aimed at the eradication of hard drinking. This and many other actions showed that

authorities were attempting to identify reasons for weak discipline and to find ways of strengthening it.

Later on, the introduction of *glasnost* (the closest English equivalent is ‘transparency’) was justified to a large extent by an attempt to improve the flow of information in order to build a more effective administration, which includes the management of mid-level Communist officials (see, for example, Gorbachev, 1995, vol. 1, p. 318). Democratization was first interpreted as giving rank-and-file workers more control over the actions of their immediate leaders. It is interesting that the main sign of democratization became the elections of enterprise directors, workshop managers, etc. The specific design of democratization was based on the supposition that at the top and bottom of the state hierarchy interests coincide, and that these interests are threatened by egoistic actions at the middle level.

For the purposes of this article, it is not important to establish whether Gorbachev was motivated by a desire to overcome the erosion of power. There is conflicting evidence about this. The important thing to consider is that during the period when he was still successfully controlling the political situation, the reforms were not designed to reduce the sphere of government responsibility, but to develop more flexible methods of exercising authority. Excessive regulations were removed in the hope of improving the effectiveness of others. Measures of rather liberal character were accompanied by constant attempts to maintain central control over regional governments and state enterprises. For example, in 1987 a so-called “quality-control” system was introduced, and approximately 50,000 authorized agents were sent out to state enterprises with the aim of improving the quality of production. But the liberal measures, because of their novelty, attracted more attention than straightforward attempts to strengthen discipline. More importantly, the former had much more dramatic results than the latter, although these results did not always coincide with the expectations of the reformers.

In Brown (1996, pp. 122–129) there is an interesting analysis of the gradual changes in the meaning of key terms that characterized *perestroika*. In many cases there is a hidden process behind these changes: actions taken at the top of the communist hierarchy did not produce the expected response at the middle and lower levels, but did provide the population with new opportunities to pursue their own interests. For example, *glasnost* not only allowed someone to criticize his director for a lack of zeal in carrying out a plan, but also protected his right to express political and religious beliefs. The introduction of *glasnost* as a means of increasing administrative transparency was of limited success, but an important consequence was *glasnost* in a broader sense (not associated with this word before), that is, the expansion of freedom of speech.

A similar response was prompted by changes in the central government’s relationships with regional authorities, as well as managers of public enterprises. At the end of the 1980s, more authority was delegated to local administrators and enterprise directors in order to stimulate more efficient use of resources at the regional and enterprise levels. This actually led to deterioration of the government hierarchy. Some regions of the former Soviet Union, such as the Baltic republics, managed to create favorable conditions for future independent development, and some enterprise directors started to use the new opportunities for their own

benefit by reallocating resources from their enterprises into semi-private or private establishments.

During the last years of his rule, Gorbachev began more or less openly to carry out reforms that went beyond the scope of administrative transformations. The general goal was to shift the focus of government officials away from accountability to superiors and to move towards accountability to customers and citizens. In the economic sphere, private enterprise was partially legalized. In political and administrative spheres, the first decisive step was to merge the positions of local party and state managers.

As a result of this change, the real power in republics, regions, towns and villages of the Soviet Union was exercised by the corresponding organizations in the Communist Party. But according to the constitution, the power belonged to the Soviets (councils, elected by the public). The Chairman of the Soviet was invariably a member of the local party bureau, and one of the closest subordinates of the local Communist leader. While the candidates for elections were chosen exclusively by the corresponding party body, the Soviet at least nominally depended upon public support, while the party leader did not depend on it at all. It was just this that Gorbachev tried to change. Further steps included the intentional weakening of Communist Party influence in the 1989 elections, but after that the political situation was beyond the control of both the party and Gorbachev himself.

Although some administrative reforms were tried repeatedly in 1990–1993, they gave way to an open struggle between irreconcilable political forces, each of which claimed to be legitimate. The question was no longer how to improve the operational performance of the government, but what should be the structure and the principal goals of the state. During that period, Russia twice survived situations in which a universally-acknowledged power system was practically absent: In 1991, when Gorbachev's administration of the Soviet Union and Yeltsin's administration of the Russian Federation began to compete; and in 1993, when President Yeltsin openly fought against the Supreme Soviet (the parliament) and forbade the officials to execute its laws.

An analysis of specific features of the structures and methods of executive power in such circumstances is a very interesting task in its own right. Unfortunately, there is no opportunity to pay attention to it here, since that would lead away from the problem that Russia is facing today: the obviously unsatisfactory level of performance in the public sector, even though duties, responsibilities, and plans are quite clearly defined. This problem gained prominence after President Yeltsin used the army in late 1993 to dismiss the parliament. He won the right to establish a constitution that gave him much broader powers than presidents have in the majority of democratic countries. The president was granted the authority to appoint and remove ministers without consulting parliament, and powerful tools to influence legislation. Yet both the laws and the president's edicts, especially those concerned with regulating economic processes, are very often not put into practice. This is most apparent in the area of the budget. For example, according to a recent evaluation, if taxes were administered effectively, the revenue from personal income taxation would increase by 2.5 to 3 times (Gavrilenkov, 2000). At the same time, the government has often delayed payments to public employees during the last several years, and finances educational, cultural, and other institutions at a much lower rate than specified by the laws that are nominally in force. Due to budgetary underfinancing in 1999, for instance, over 10 billion

rubles were not paid to employees (this sum is equal to 1% of the consolidated annual budget) (Gosudarstvenny Komitet po Statistike, 2000). The government is not able to meet its commitments to suppliers or to ensure that commitments are met in the private sector.

The failure to carry out plans and the inability to influence the economy has been a chronic illness of the Russian government. Since Andropov's time, this has been the major obstacle to economic development. Some of the most severe symptoms showed up in August 1998. There is no obvious cure. The immediate carrier of the disease is the Russian bureaucracy, some peculiarities of which will be considered here.

2. The traditions of the Russian bureaucracy

Currently, the total number of government employees in the Russian Federation exceeds 1.1 million (which is 1.7% of the total workforce).⁵ Of these civil servants, 68% have the status of "public officials" (this category does not include support personnel). Russia has 5.5 officials per 1000 inhabitants.

Over 40% of Russian officials used to work in the bureaucracy of the Soviet Union. New staff members were constantly hired in the Soviet era, and very few employees got fired. In three senior groups, officials with over 15 years' experience in civil service constitute approximately half of all current employees (54%, 50%, and 38%, respectively). These employees were promoted during pre-Gorbachev times. There are many high-ranking former Soviet officials among the ministers and their deputies. New civil servants more often hold lower positions in the hierarchy. In Russia's regional governments, the climate is more resistant to change since in most cases the authorities hold less reform-oriented views than federal administrators.

The prevalence of the old staff would not make so much difference if this type of Soviet official resembled the Weberian bureaucrat. If the officials drew a clear distinction between government service and private life and were guided by comprehensive formal rules, changing these rules could have been compared to setting up a new program on a computer. The problem is that the basic rules of the Soviet system presupposed that officials would have a personal devotion to certain ideas. Practically all the positions responsible for making significant decisions could be occupied only by Communist Party members. According to the Rules of CPSU (Communist Party of the Soviet Union), its members had "to master Marxist-Leninist theory, to lead a resolute struggle with the manifestations of bourgeois ideology, of private property psychology, of religion, etc." (Ustav Kommunisticheskoi partii Sovetskogo Souza, 1976).

Regardless of the specific historical circumstances in which such requirements were formulated, they were absolutely essential, from an economic point of view, when market and democracy were absent. Desire for detailed regulation of all economic and social processes depended upon the processing of an enormous amount of information in the public administration system.⁶ The specific contents of economic problems that inevitably arose under such conditions was analyzed, for example, by Kornai (1992).

Even Lenin himself realized that his project of comprehensive administration of the economy and society could not be put into practice if what was later called the principal-

agent problem could not be overcome. The only way out, as he saw it, was to have local decision makers (commissars) everywhere, who grasped the general goals of the Communist Party, were devoted to these goals, and relied on them as a basis for decisions in diverse and changing local conditions (e.g., Lenin, 1918). It is for just this reason that the Communist Party was to become “a fighting detachment of like-minded persons” (this wording was insistently repeated in official documents until the 1980s). Conformity of opinions and selflessness among those responsible for making decisions was supposed to eliminate the participation constraint and the incentive compatibility constraint, both elements of the principal-agent problem.

Ideological indifference and willingness to serve the democratic state are in no way compatible with the chief demands that were placed upon civil servants in the Soviet Union. Yet, the actual events in the 1980s and 1990s showed quite clearly that the overwhelming majority of Russian civil servants did not meet these demands. Although the public administration was dominated by members of CPSU, a shift away from communism was accomplished mainly by the most active part of the staff, the majority being neutral and a minority being slightly opposed. This is evidence for the conclusion that Russian officials had been accustomed to:

- (1) a profound difference between formal requirements (fixed in written form) and real life;
- (2) the ideologization of formal rules, which means that terms like ‘communism’ and ‘plan’ could easily be replaced by the words ‘democracy,’ ‘market,’ etc., since they are only a kind of formula;
- (3) the strong influence of certain informal rules that do not presuppose the devotion to a set of abstract ideas, including the idea of honest performance of official duties.

Students of Russian culture often note that allegiance to formal rules is much less common in Russia than in Western, Chinese or Japanese cultures. This phenomenon is connected with the conviction that impersonal rules inevitably distort the idea of justice. It has always determined, to a large extent, the attitude towards legislation, political activity and public service. To illustrate this idea, here are several quotations from prominent Russian philosophers and writers from different times. It is worthwhile to note that all of these authors are known for their patriotism.

“Even the word right was unknown here in its western sense; it meant only fairness, truth” (Kirievsky, 1839).

In Russia, “Bureaucracy engaged in public service had always seemed foreign, non-Russian The Russian people seem to wish for not so much the free State, but freedom from State, freedom from caring for earthly arrangement” (Berdyayev, 1915).

Tolstoy was convinced that “it was impossible to improve oneself morally and participate in political affairs . . . any government is made up of awful, inhuman and powerful highwaymen” (Tolstoy, 1905).

Similar thoughts are found in the latest work of the most famous modern Russian nationalist and former leading critic of the Soviet regime, Alexander Solzhenitsyn: “Even though methodical activity, persistence and inner discipline are lacking most morbidly in the Russian character, this perhaps is our main vice The attitude to laws has always been

distrustful, ironical But instead of legal consciousness there has always lived and hasn't died yet in our people a quest for justice, expressed, for example, by a proverb: Let all the laws vanish should people live only by truth." Solzhenitsyn adds, "The Russian used to avoid and to despise power," although "he was yearning for the strong and rightful actions of a ruler, was expecting a miracle" (1998).

It has been a Russian tradition to view the state as having both a higher, true (or ideal) authority, and a lower, empirical authority. The first, the so-called *derzhava* (power), is infinitely superior to the individual, who is supposed to serve it with absolute selflessness (which for many used to be the usual behavior when Russia's sovereignty was threatened). The second kind of governmental authority is expressed in a set of written rules and bureaucratic systems. The first is a benchmark for evaluating the second, but with such a benchmark moderate improvements hardly matter. As legislation is never absolutely perfect, it is less important than moral sense.

A traditional lack of respect for written rules led to their frequent violation, not only for the sake of justice but for personal benefit as well. As far back as the nineteenth century the amount of corruption in Russia was extremely large (Kirpichnikov, 1997). At the same time, a lot of examples can be found of a person's devotion to his own moral principles, to the fatherland, the monarch, sometimes to an immediate superior, but almost never to laws or regulations themselves. Russian administrative culture is dominated not so much by self-interest, but by self-will.

After the communist revolution, public administration was almost completely redefined. Not necessarily well qualified, but personally devoted to the communist ideas, the commissar became a typical decision maker. Lenin's plan, discussed above, was unrealistic. For one thing, coherent interpretation of the goals and methods of the so-called communist construction got more and more difficult as new complications arose. This soon led to various ideological deviations in the CPSU. Party members fought each other fiercely over these differences. In addition, a new phenomenon appeared that was called *embourgeoisement* (becoming bourgeois), which meant weakening of selflessness or concern for private interests.

Leaders of the CPSU, starting with Stalin, tried to solve the problem of deviation by provoking mass terror. Molotov, who had been Stalin's closest collaborator and had long occupied the post of prime minister, explained the alleged necessity of terror tactics in his memoirs.⁷ Molotov admitted that charging higher officials with espionage, sabotage, etc., was intended mainly to influence public opinion. From his point of view, the objectives were, first of all, to do away with all real and potential deviations, and secondly, to intimidate those who might become "embourgeoised."

In Stalin's system, mid-level officials had to take initiative, since it was impossible to anticipate everything at the very top. But officials knew that if their activity or inactivity for any reason evoked the disapproval of their superiors, the probable consequence would be imprisonment or execution. Even strict adherence to regulations did not save someone from disciplinary measures. If an official caused dissatisfaction, he or she was charged not with the violation of service duties but with alleged espionage, conspiracy, or simply with anti-Soviet attitudes. All other things being equal, the violation of regulations certainly increased the probability of punishment. If violating rules brought success, however, it was regarded as taking useful initiative.

The formal rules often played a rather decorative role. For example, the Soviet Constitution of 1936 declared the basic rights of a person. Yet no person at that time could have had any idea of actually asserting the right to freedom of speech or the right to form associations. The first attempts to uphold rights by appealing to the statements in official documents or legislation were made by dissidents in the 1970s. Even then, the authorities reacted by confining outspoken dissidents in prisons or psychiatric hospitals. All of the adults now living in Russia were brought up seeing an enormous gap between legislation and reality. Therefore, changes in legislation can hardly play the same role in Russia as they do in the West or even in the countries of Central and Eastern Europe.

By the time of Stalin's death, the staff at the top and mid-levels of a number of key agencies had been replaced several times. But the use of purges as a principal means of ensuring the loyalty of civil servants could not continue endlessly. In Khrushchev's era dismissals were not accompanied by arrests, and in Brezhnev's time a so-called "considerate attitude to the staff" prevailed.⁸ At the same time, no new ways of solving administrative problems were found.

At one time, civil servants were made responsible for the production of goods even when there was a lack of necessary resources. In the absence of a market as an information generator, the emergence of resource shortages is inevitable. During Stalin's regime, an official had to choose between future arrest or desperately finding a way to carry out his duties by extraordinary efforts, inventiveness, or cruel exploitation of subordinates, including violation of their rights. By contrast, in Brezhnev's period the customary solution to the problem was a correction of the plan, which required only a good personal relationship with superiors.

In Stalin's time, the system of public administration could meet the expectations of the state political leadership. For example, the targets of economic development plans were generally achieved, although there were enormous costs including human lives. During the last decades of the Soviet Union's existence none of the major plans were carried out and expectations were not even roughly fulfilled.⁹ As soon as unfavorable circumstances were taken into consideration as a reason for failure, the problem of cost-efficiency became very urgent. In the Stalin era, every official had to do his best in the civil service, under threat of brutal punishments. By the 1970s and 1980s, an official received less strenuous assignments and had more abundant resources at his disposal. A similar trend has long been drawing the attention of researchers of bureaucracy in the West. It is sufficient to mention the well-known work of Niskanen (1968). Niskanen and those who have commented on, criticized or modified his model usually focused their attention on inefficiency, without addressing the issue of the allocation of abundant resources. In fact, it is simply assumed that these resources are wasted, and that a bureaucrat's goal is to expand his sphere of influence and to gain an increase in salary and the possibility of working less intensively. In the case of the Soviet bureaucracy of the 1970s and 1980s, this assumption does not reflect the essential features of reality.

3. Administrative markets and clusters of connections in the 1970s and 1980s **The erosion of hierarchy**

In situations involving chronic misallocation of resources, inevitable in any planned economy, even the most conscientious official or head of an enterprise is constantly tempted

to conceal certain possibilities from superiors in order to prevent an increase of work and to maintain some reserves. As soon as such behavior ceased to be extremely dangerous, concealing opportunities became widely used for the benefit of organizational and individual interests. It was even encouraged by the authorities to a certain extent. For example, it was customary that the plants situated on a city's territory would help solve the problems of the local infrastructure. Strictly speaking, however, the resources were allocated to the plant by the state exclusively for fulfillment of its own programs. Using part of the resources for projects other than their official purpose became a popular way for managers to assist city governments and local Communist Party organizations.

Naturally, government resources were also used for less worthwhile purposes. A Western scientist remarked that Soviet authorities faced the difficult problem of distinguishing functional corruption from the dysfunctional variety (Kramer, 1977). In a country where the state owned almost everything and attempted to regulate everything in detail but did not provide sufficient resources to enable officials to complete their tasks, a peculiar sort of feudalism developed. As a popular Soviet humorist capriciously characterized the situation: "He who guards something, owns that very thing."

Partial concealment of economic opportunities provided the basis for the semi-legal exchange of resources, services, information, and even administrative actions. As a result, a phenomenon emerged that was later called an administrative market (Naishul, 1991). Administrative markets compensate, to a certain extent, for the inescapable mistakes in planning, provide useful information, and improve the position of those persons and organizations that participate in them. But the functioning of these markets does not always promote the achievement of official government goals. In fact, these markets tend to erode the structure of public administration, and to obscure the border between useful initiative and corruption, between disregard for arbitrary rules and crime. It was widely believed to be impossible to fulfill a duty without violating laws, as well as natural to steal from the state.

The widespread exchange of resources and opportunities that nominally belonged to the state was not accepted with absolute tolerance by authorities. Some risk of punishment always existed, especially if bureaucrats or managers acted directly in their personal interest and not in the interest of an agency or city. Also, the absence of a legal basis for exchange made it difficult to enforce contracts and to set standards or guidelines for mutual expectations.

3.1. The existence of informal networks

Because of these circumstances, exchanges took place mainly within informal networks, between participants who trusted each other personally. The networks permeated the entire system of public administration in the former Soviet Union. Specific features of the networks, which my co-author and I have called "clusters of connections," are discussed in Jakobson and Makasheva (1996).

Networks were used by their members to promote the interests of the enterprises and organizations to which they belonged. A participant in a cluster of connections could contribute his discretionary use of resources that nominally belonged to the state. He was valuable to his partners because of his place in the governmental hierarchy and because of

his ability to act without following the official rules. An effective cluster of connections acquired the traits of a clan, as described by Ouchi (1980), and called for large investments in a mutual trust system. As a result, the networks were able to maintain stability even in a rapidly changing environment.

The setting up and maintaining of connections was necessarily based on collective action, since it required cooperation. It also presumed the existence of particular informal rules. This collective action was aimed at gaining access to certain goods, rights, and opportunities that were formally at the disposal of the state and that alternatively would have been used in the interests of other groups. Within the clusters of connections, informal hierarchies gradually took shape. The networks acquired more and more features of organizations. To a certain extent they were organizations of a mafia type, although their activity, as a rule, was not connected with violence, and violation of laws was mainly due to the fact that Soviet legislation prohibited exchange. Illegal exchange and entrepreneurial activity favored redistribution and private appropriation of resources rather than production of goods and services.

A manager typically belonged to two or more organizations simultaneously, only one of which existed officially and was part of the public administration hierarchy. A person's prosperity was often more related to an informal organization than to a formal one. As a result, the loyalty of a participant to an informal organization was strong. But this does not constitute corruption in the usual sense. First of all, clusters of connections served not only to enrich the participants personally, but also to further the interests of cities, regions, departments, etc., to the extent that these interests were understood by members of the networks. Second, loyalty to officially declared goals undoubtedly remained intact to some extent. Although the so-called highest goals of the Soviet state were looked upon with irony as far back as the 1970s, officials generally continued to work towards the particular goals of an organization or region.

A Soviet public employee's actions were influenced by a set of overlapping magnetic fields, generated on the one hand by formal organizations, and on the other hand by informal groups to which he belonged. This kind of situation required creativity and the ability to make independent decisions. In most instances, an employee's creativity was not directed towards searching for optimal ways of attaining the goals established at the top of the state hierarchy.

Officials and managers managed to acquire state property and power on an unprecedented scale during *perestroika*. As a result, some leaders of the local Communist Party organizations who had been appointed by Gorbachev became heads of independent states, and many directors of state enterprises transformed themselves into major shareholders of the same enterprises. This was not just something that happened in a few instances, but a general pattern for the vast majority of officials that modern Russia inherited from the former USSR.

3.2. *The reform agenda of the 1990s*

The relationship between the nominal and the actual rules for the distribution of power explains, to a great extent, not only the transformation of *perestroika* from administrative reform program into economic and political revolution, but also the peculiarities of the reforms of the 1990s. As there is no possibility of describing in detail all of the varied and

inconsistent reforms, a sketch of four of their key attributes will be given, with emphasis on the consequences for economic development.

3.3. An unclear boundary between the public and private sectors

Reform efforts have led to changes in the sphere of state responsibility that have redefined the boundary between the public and private sectors. Russia has experienced privatization on an unprecedented scale. Reformers are ready to face considerable social and political costs in order to set in motion the motivational mechanisms connected with private property as soon as possible. The government in the early 1990s, led by Gaidar, attempted “to redeem Russia” by encouraging “the exchange of power for property” (Gaidar, 1994). In many cases, however, this exchange was only partially a success, since privatization has been only partial. The transfer of responsibility or power is not always accompanied by a transfer of adequate accountability, and vice versa. This means that managers of privatized state enterprises often do not suffer any negative consequences if things go wrong. But they may get extra pay if profits develop, even if this is due to external factors.

A disparity between rights and responsibilities was an essential feature of the economic policy during almost the entire Soviet period. For example, in the 1930s if a plant’s productivity rose the director gained much less than he would have gained if he had been the owner of the plant. If productivity declined, he was threatened not only with monetary loss, but with imprisonment or execution. In contrast, by the 1980s the director and his partners in a cluster of connections functioned as shareholders of a plant, except that the losses were recovered by the state. Privatization in Russia was by no means the transition from pure state property to pure private property. In 1998, the president was still pointing out the necessity “of parting the state and the private, to set up absolutely clear relationships between power and the economic life of participants” (Yeltsin, 1998, p. 41).

Privileges, by definition, cannot be given to everyone equally, and the efforts of the most enterprising individuals are aimed at gaining them. This tendency is strengthened by the fact that in Soviet times the most popular sphere of economic activity was appropriation of state resources. The open or hidden interlacing of economic, political, and administrative activity is an essential characteristic of Russia.¹⁰ A high percentage of economic actions have been directed at redistribution, which has a negative influence on economic growth. This situation is described in Olson’s book (1982).

3.4. Non-transparent resource management

Recent reform programs have included changes in the management of public resources. Improvements are difficult to make because of the haphazard division of public and private resources caused by asymmetric privatization, along with the traditional disregard for formal rules. Consider, for example, the situation in the area of education.

A number of laws and regulations put in place in the early 1990s have significantly increased freedom of choice in education, legalized private schools, etc. At the same time, these laws have called for an unrealistic amount of public financing for educational institutions. The subsequent lack of funds did not lead to protests, since it had been implied that

the law would not be followed exactly. It was generally believed that the higher official funding requirements would mean more real funds, all other conditions being equal. In addition, educational institutions were allowed to engage in so-called “enterprising activities” to compensate for the absence of state money. Recently, due to the ongoing budget crisis, the government has practically stopped financing educational institutions altogether. Salaries and student scholarships have decreased and often arrive late. The survival of public institutions depends more and more on their own enterprising activity, which is viewed as an exception, and therefore poorly regulated. This kind of activity is often biased towards the private interests of the heads of educational institutions.

In 1997, I participated in an effort to develop a new reform program for public education that envisioned, among other things, taking inventory and keeping track of all streams of funding, both public and private. This would promote transparency, effectiveness and efficiency, and would make possible a transition from the impossibly optimistic budget process to a realistic one. Government support of this project has been blocked because almost all active officials in the educational system are against it—in particular, the heads of state universities. For most of them, the reason for their opposition is not so much self-interest, but rather a sincere belief that the new rules would not be followed effectively. Therefore, they think it is better to have wildly overestimated budgets in order to increase the chance of getting at least something. The degree to which funding comes through for particular public sector organization is influenced by the involvement of its staff in informal networks, among other things.

Fierce fighting over state money is combined with an almost complete lack of performance standards. This applies to the education system and to the majority of other areas of the public sector as well. The reforms of the 1990s did not include any innovative ways to prevent misuse and waste of resources.

3.5. Asymmetric evolution

The relationship between federal and regional authorities has also been affected by the reforms. Here the point of departure was the three-layered standards of the Soviet system. The first layer consists of the mainly decorative standards of the constitution, describing the regional authorities and their rather broad powers. The second layer is made up of real life standards, dictated by the leadership of the CPSU and the USSR. These unwritten and written rules (in the form of regulations of the CPSU, instructions on working out the budget, etc.) governed the appointment of regional authorities, their absolute dependence upon Moscow superiors, and their absolute lack of dependence on the population of a region. The second layer was the only one that mattered in the 1930s through the 1950s, but later on it was partially displaced by a third layer, which includes informal rules, connections, and personal patronage.

The Constitution of the Russian Federation, adopted in 1993, is comparable to constitutions of other democratic federal states in terms of defining the power of national and regional authorities. Currently Russia has 89 regions (including Chechnya) which are subjects of the Federation, according to the constitution. This does not mean that the federal government has less authority than the regional governments, but the latter are quite powerful. The regions are further split into municipal jurisdictions. The constitution declares that federal laws are superior to regional laws, but regions may issue their own regulations

concerning market regulation, education, medical issues, etc. While constitutional rules are more influential today than they were in the Soviet period, they still do not fully determine the relationships between various administrations.

Shortly after the adoption of the new constitution, some regions succeeded in signing special treaties with the federal government having to do with the division and delegation of power. These treaties contradict the constitution in a number of ways. They are hardly in accordance with the clause that states, “In relation to federal bodies, all the subjects of the Russian Federation are equal.” The scope of federal authority in Tatarstan, for instance, is considerably narrower than in the majority of other Russian regions.

The real relationships between the national and regional (as well as municipal) governments are affected also by differences in the financial situation of the regions. Only nine out of the almost ninety regions are donors, fifteen more are semi-donors to the federal budget, while over thirty regions are not capable of even meeting their own needs without subsidies (Lavrov et al., 1997, p. 17). The legal basis of fiscal federalism in Russia is far from ideal. Moreover, under current conditions because of the overall lack of resources, the poorer regions often get less than they are supposed to receive according to the law. The amount of federal funding for a particular region depends on many factors, including some that have nothing to do with written rules. These factors, as well as a region’s dependence on resources controlled by the Federation, affect the ability of the federal administration to influence the situation in a given region. For the majority of regions, efforts directed towards receiving additional funds from the federal budget are more of a priority than efficient management of the available resources. In this respect, recipient regions are like the departments of education, culture, etc. But the donor regions, because they can rely upon their own resources, are in a different position. Later on, the role of the regions as potential locomotives of future administrative reforms will be discussed.

3.6. Persistence of informal rules in the Russian civil service

A fourth element of reform involves the extensive changes in the structure of the federal administration and the organization of the civil service. It was of vital importance in the Soviet Union that the true core of the administrative structure, that is, CPSU staff, did not formally belong to the system of public administration. Moreover, there was no clear-cut division between officials and other state employees. In fact, the distinction was first noted by the legislation, “On the Foundations of the Civil Service of the Russian Federation,” adopted in 1995. This legislation is to a great extent influenced by continental Western European bureaucracies and includes detailed rules governing competition for various positions, career advancement, preventing conflicts of interest, etc.

Without discussing the merits and drawbacks of the laws themselves, it is important to note the lack of mechanisms for applying those provisions that differ from previously established patterns of behavior. Consider the results of an official survey presented in Afanasyev (1997, pp. 225–226): 90% of respondents reported regular deviation from official standards and rules in the course of their work, including 25% who considered the influence of these rules insignificant. Sixty percent of respondents believed that it was impossible to work at all, keeping strictly to the rules. In other words, the rules contradict each other and do not correspond to the real conditions

of work. The same survey showed that a civil servant's career is still dependent to a large degree on relationships of personal devotion and patronage, as well as ties to countrymen and support from business structures. (*ibid.*, pp. 228–230).

Traditions inherited from the past still influence the structure of Federal authority. As mentioned above, the core of the Soviet administration was made up of the CPSU bodies, the functions, rights, and responsibilities of which were not determined by law. In practice, these groups were carrying out the directions of party leaders and exercising the powers delegated by these leaders. For example, the ministers of defense, foreign affairs, home affairs, etc., were nominally subordinates of the prime minister, as were the economic ministers (such as the ministers of finance, transport, power engineering, etc.). In reality, however, the political ministers were directly subordinate to the general secretary of the CPSU Central Committee, while the prime minister was responsible only for economic affairs. More recently, a similar division of responsibility has been established between the president and the prime minister, although this is not specifically directed by the constitution. The president's administrative staff is formally responsible only for his personal work, but its actual role is analogous to the role that was played by the Central Committee (although ideological and political orientations are quite different).¹¹

The discrepancy between nominal and real responsibilities in the system of public administration, and allegiance to personalities rather than to procedures, tends to favor informal rather than formal rules. The latter are not completely decorative, however, and should be taken into account both when analyzing the present system of public administration in Russia and when designing reforms. While the administrative tradition that was formed during the centuries of the existence of the Russian bureaucracy and enforced during the Soviet times should be condemned, it cannot be overthrown all at once. The most effective way to achieve reform is to identify and support the relatively positive (if less than ideal) trends that have begun to show up in real life.

Some Russian specialists are headed in other directions.¹² The illusory ease of changing the rules, due to the fact that they are noncompulsory, favors ambitious plans. For example, one of the most widely accepted textbooks on the theory of public administration states that it has long been necessary “to change radically all the approaches, orientations, and actions” of the population, and maintains that the first step should be “the evaluation of everything from the point of view of expediency.” These ideas are based on the premise that an administration can be designed in such a way that it will not only manage to solve problems but will prevent the emergence of problems as well, “perhaps with the exception of natural anomalies and extraordinary situations” (Atamanchuk, 1997, pp. 348–353). In the above-mentioned work (Afanasyev, 1997), which includes a shrewd analysis of informal patron-client relations in Russian public administration, only measures that presuppose the omnipotence of law are suggested.¹³

4. Technocratic reforms as a second-best solution

“It can be argued plausibly that much of the economic backwardness in the world can be explained by the lack of mutual confidence.” (Arrow, 1972). The stagnation of both the

Soviet and the present Russian economy is caused to a great extent by a traditional and well-grounded mutual distrust among actors within the public sector and also between the population and public administration. Even when human and physical capital is available, there is a shortage of the social capital that is needed for economic activity to be successful.¹⁴ Its accumulation depends on the formation of civil society, which is still at a very early stage in Russia. For this reason “ineffective government and economic stagnation . . . seems likelier than successful democratization and economic development. Palermo may represent the future of Moscow” (Putnam, 1993, p. 183).

It should be noted that the Palermo situation, that is, the domination of client relations, is not the worst of all possible prospects for the development of events in Moscow. If the legal responsibilities of the authorities, the bureaucracy, and the citizens are still not carried out and the economic situation is not stabilized, there is a high probability of radicals gaining power. Their slogan is “*poryadok*” (strong order). For one faction of very active radicals in modern Russia, the ideal is Stalin. For another it is Hitler, but both groups are inclined to end up resorting to force as they attempt to achieve the restoration of the empire.

The idea of *poryadok* appeals to the public, but the majority of citizens are not yet ready to vote for the radicals and the return of terror. Most people currently base their hopes on the leaders who are considered *khozyaistvennik*. This word means something like housekeeper, and during Soviet times it was used to refer to economic ministers, plant directors, and party officials who were responsible for carrying out economic plans. The majority of governors now attempt to be or to seem *khozyaistvennik*, including those who were previously known as politically devoted liberals or communists. The emphasis is on working towards the development of regional infrastructure and supporting enterprises in combination with a rather indistinct political platform, which would encourage collaboration with all political parties except the radicals.

The *khozyaistvenniks*, such as Moscow Mayor Yuri Luzhkov, are characterized by a technocratic approach to management, which includes forming administration teams. Absolute loyalty to a leader is demanded of team members and they must strictly abide by the formal and informal rules. Membership gives great advantages, including informal ones, but it is not compatible with the activities of the informal networks which would require crossing team borders.

The fact that teams in the form of client groups were common in the Soviet era facilitates building teams now. Formerly, teams were formed within the framework of the staff policy of the CPSU. For example, the deputy chief of the regional party organization, especially in non-Russian regions, was usually a person who had no personal ties with the leader. The career of a top regional official depended not only on gaining the favor of his immediate superiors but on making connections in Moscow. In short, there was a network consisting of overlapping groups of different kinds, both vertical teams and horizontal clusters of connections. The latter played as important a role as the former.

In the last decade, teams began to be formed openly without belonging to an official hierarchy. This at least provides an opportunity to develop a noncontradictory set of rules that can be formalized if needed. Just as important, the team leaders now are competing openly and seeking to demonstrate administrative effectiveness to the electorate, which motivates them to choose their staff quite carefully and to encourage effective relationships among

members of the staff. Finally, a modern managerial culture is emerging in Russia (not so much in the sphere of public administration but rather in business), and these managers are fairly often invited to take prominent positions on teams. In a number of cases, teams have shown the ability to unite and accomplish productive work.

The positive impact of the *khozyaistvennik* teams should not be overestimated. From a short-term perspective, what is significant is that they are not separated by impenetrable borders and form a superstructure that extends across traditional hierarchies, although they are not completely free from the old behavior patterns. Now that more rational approaches to management have emerged, the design of reforms can be based on the analysis of conditions under which the effectiveness of teams would increase. The scope of a team's responsibility is also important to consider.

The most favorable conditions for rational change are now present in the administrations of the regions that are members of the Russian Federation. At the level of smaller municipal administrations the influence of a narrow group of local businessmen, and sometimes criminal groups, is often too high. But at the regional level, the interests of a great number of influential groups are usually represented. This provides more room for administrative maneuvers. At the same time, a regional bureaucracy is not as large or as refined as the federal one, which makes it easier for the new teams to accomplish things.¹⁵

The prospects for short-term and middle-term reforms are good. First of all, they can be managed by *khozyaistvennik* teams using modern administration methods, including those based on New Public Management. Second, they have already had a positive impact on the old bureaucratic environment. Third, decentralization has broadened the opportunities of regional administrations. Decentralization is very important, because the regions do not all have the same potential for administrative and economic improvement. The success of some regions, while others fall behind, may create tensions but is preferable to a general depression.

As far as long-term prospects are concerned, leaning on technocratic teams and absorbing them into the bureaucracy increases accountability to superiors but not necessarily to constituents. The formation of an administrative system based on strict and orderly patron-client relations would be an improvement over the usual Russian practices of the last decades. Nevertheless, following Putnam, this system might transform Moscow into Palermo. It is a way of controlling but not eliminating corruption, and it can by no means guarantee rapid economic growth, not to mention justice.

These new administrative structures and methods appear likely to succeed, but their success is not inevitable. Russian public employees have demonstrated an ability to adapt their behavior to a wide variety of circumstances, such as Stalin's terror, clusters of connections, and new teams. The habit of operating within informal networks is firmly established, but the system of networks has often been restructured and an individual's commitment to a particular network is much weaker than in a number of countries in the Third World.

4.1. The need to build civil society in the long term

In the long run, the use of efficient and modern principles of public administration in Russia depends on the successful development of civil society. This is essential in order to guarantee the accountability of public officials to their clients and to society as a whole.

Because of Russia's historical peculiarities, a civil society has never really existed. Citizens' attempts to organize and assert their rights have been consistently suppressed. The pressure was not removed until just over a decade ago. At that time, a legal basis for the establishment of public associations and other nongovernmental, noncommercial organizations was put in place. These changes can be characterized as necessary but insufficient for the formation of civil society. Various groups in Russia are prepared to participate in civic life to varying degrees. This readiness is most strongly demonstrated by the business community and members of the middle class in larger cities. The majority of viable nongovernmental organizations are concentrated in these cities. For the most part, the business community tends to be focused on solving its own most urgent problems rather than contributing to resolving broader issues related to the society at large. The Russian middle class is relatively small. Many of the most reputable NGOs are relying on foreign sources of funding.

For a considerable number of people, noncommercial organizations are still associated either with pseudo-independent Soviet style structures or with organizations that are explicitly or implicitly aimed at political struggle. To put it differently, independent groups are often assumed to be organized or controlled by the government. Although individual initiative and mutual assistance are common characteristics of traditional family and friendly relationships, the desire to participate in redistribution of resources often takes precedence over the intention to independently seek other means to reach social objectives.

Another urgent problem is related to cases of financial abuse by non-commercial organizations. Many of them have actually commercialized their activities; some are engaged in criminal activities. Nonprofit organizations are sometimes used by profitable businesses to avoid taxation. Therefore, there is a trend to reduce tax benefits for the noncommercial sector. Unfortunately, this trend discourages development of nonprofit organizations, including respectable ones.

It is not enough just to eliminate barriers to forming effective social service organizations. In the foreseeable future the state will have to play a more active role, although in a more mature society more could be accomplished without the involvement of the public sector. There is currently an urgent need for government programs to support autonomous nongovernmental organizations. This includes helping build noncommercial structures to provide services for old and disabled people, subsidies and reduced-rate loans to consumer cooperatives, etc. Tax benefits should be given to companies and individuals for voluntary medical and social insurance as well as for charitable donations. These steps will be effective only in conjunction with reviewing the legislation involving nongovernmental, nonprofit organizations. The definitions should be much more specific, in order to accurately differentiate between profit making and nonprofit activities.¹⁶

5. Conclusion

Russia's experience confirms that administrative reform cannot be limited to changing the regulations of the civil service and public sector, but requires a whole set of shifts: (1) revision of written rules; (2) changes in public attitudes, which are affected by cultural and

economic changes; (3) changes in institutional arrangements; and, (4) changes in the functioning of the public sector, including action that is consistent with written standards.

In countries where there is a significant gap between the nominal and real conditions in a public administration system, designing a perfect system is no substitute for true reforms. For these countries, it is necessary to take a realistic approach. Reform methods should be based on selective support of actual trends, even if these methods are less than ideal. It is necessary to move away from an unreachable ideal and to be able to accept the lesser evil, as well as to be ready to choose a goal that was achieved in a number of other countries a long time ago. Naturally, this depends on moderation in forecasting economic and political conditions in the near future. Due to current circumstances, government accountability to the public will be possible only to a limited extent in the near future, but significant improvement of the Russian system of public administration depends on increasing it in the long run.

For modern Russia the priorities are, on one hand, modernization of administrative activity based on the formation of rationally acting bureaucratic teams (where the conditions for this have emerged), and on the other hand, the kind of changes in the system of government that will support public participation in civic life that extends beyond elections.

Notes

1. In 1997 the share of governmental spending made up 41% of the GDP (Working Centre for Economic Reform, 1998).
2. The differences between institutional arrangements, constitutional regulations, and cultural endowments are understood here as described in the new institutional economics (see, e.g. Feeny, 1988). According to the United Nations definition, administrative reform is “the deliberate use of authority and influence to apply new measures to an administrative system so as to change its goals, structures, and procedures with a view to improving it for development purposes” (United Nations, 1983).
3. The question is about the national income estimated according to a special technique that was used in the USSR. Because of underestimation of the contribution of the service sector, this indicator tends to lower the macro-economic dynamics in comparison to the estimation of GDP.
4. In his memoirs (1992), Ryzhkov, the prime minister of the Soviet Union in 1985–90, contends that it was Andropov who established grounds for positive trends of the *perestroika*, while Gorbachev showed inconsistency and hesitation in developing these trends. It is clear from context that when he refers to positive aspects of the *perestroika* what he means is just the administrative improvements.
5. After Russia declared independence, the number of state officials (without military and militia service) was increasing: in 1992 by 13.9%, in 1993 by 12.9%, in 1994 by 11.2%, in 1995 by 5.7%, and in 1996 by 3%. This data is from the Russian State Committee on Statistics.
6. Evidently, in regard to resource allocation for the provision of public goods, free

competition in the sphere of politics is as significant as competition among businesses in the market for private goods.

7. Oral recollections were put down in 1969–1986 and published in Chuev (1991).
8. According to a top party official, it was Brezhnev's tolerance of the faults of subordinates that "made his position so stable, the clue to his staying in power and officials love for him" (Boldin, 1995, p. 37).
9. Economic analysis proved that in this period the correlation between the planned and the actual amounts of production at Soviet enterprises was no longer statistically significant (Medvedev, 1986).
10. This activity takes various forms (e.g., Pappé et al., 1997). Strong investment in political influence, such as control of TV channels and newspapers, is of great importance for almost all leaders of Russian businesses. Many of them are regularly ranked among the most powerful political actors, and some professional politicians are among the people controlling the greatest amount of capital.
11. The experts called a presidential decree that released the government from submitting its resolutions to the administration for approval "sensational" (Institut problem perekhodnogo perioda, 1998). Yet the role of the administration staff is by no means negligible.
12. Most of these specialists are former participants in the educational and research centers of the CPSU.
13. Afanasyev's main suggestions are to enforce legal protection of officials and to create a special organization to assist in the struggle against corruption. [It is not pointed out why a new body would manage the situation better than the existing ones.]
14. On the notion of social capital see Coleman (1990) and Putnam (1993).
15. Judging from the first actions of the new Russian President, Putin, he tends to integrate regional structures of public administration into the federal hierarchy. In this way, Russians seriously consider the idea of so called unique vertical power. However, this issue should be explored thoroughly, due to all reasons mentioned above, and because the partial autonomy of the regional bodies currently compensates for the weakness of other checks and balances under the existing conditions of a young and underdeveloped democracy.
16. The issues concerning interaction between Russian governmental structures and NGOs have been studied for a number of years by the author together with B. Rudnik and S. Shishkin.

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