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The Construction of Market Institutions in Russia: A View from the Institutionalism of Polanyi

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After a decade of economic transition in Russia there is still no theoretic analysis which coherently interprets of it. Various analytic approaches have been tried. The ones that stand out as important are those which have stemmed from a neoclassic (orthodox) point of view. According to these studies, the destruction of the traditional institutions related to central planning guarantees the appearance of a market economy. This destruction permits economic agents to interact freely, generating what is known as an economic market (Aslund 1995; Blanchard 1997; Lipton and Sachs 1990). Nevertheless, this focus has presented serious limitations in explaining the difficulties of extending and consolidating reforms and, therefore, their positive results.[1] Attempts have been made to explain a part of the problems that have appeared by considering certain political factors such as corruption (Shleifer 1997; Shleifer and Vishny 1993, 1994). Nevertheless, such considerations have not succeeded in resolving the problems of the orthodox focus.

The neoclassic focus has been answered by evolutionist analysis, but frequently the latter has been characterized more as a criticism of the orthodox conception than as a perception of any new and specific ways to tackle this economic phenomenon. It is appropriate to note, however, that evolutionary economists have suggested some analysis of a global character (Murrell 1992a and 1992b; Koslowski 1992). In certain cases

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more novel approaches have been tried, changing the analysis hypothesis (Schlack 1996) or showing other economic visions of the transition, especially those of the Schumpeterian type (Kuznetsov 1992; Egidi 1996).

The explicative problems of the orthodox approach, as well the limitations of alternative visions, have left a very important theoretical vacuum with respect to the analysis of the economic transition in Eastern and Central Europe (March and Sánchez 1999a). In this article we will attempt to fill this analytic vacuum. It is assumed that a deepening of the understanding of the economic transition can not simply make clear that the private interests of the economic parties, together with an absence of intervention by the state, constitute sufficient conditions for the emergence of an economic market but instead must highlight the institutional dimension of the process. That is to say, it is natural that analytic approaches be employed when a more in-depth view of the economic market is required. A first step may be to assume that the market is an organized and institutionalized exchange (Hodgson 1988, 174). However, carrying out a specific analysis of the transition ends up being excessively generic and imprecise.

In this article the above subject will be expanded upon using the institutional conception provided by Karl Polanyi. The contents of this paper will be broken into two parts. First, Polanyi's main ideas will be expounded in regard to his interest in analyzing the transition (in England). These ideas will be adapted to the object of study and then specified so that they will be efficient criteria for analyzing the present economic transition. Second, the results obtained will be applied to the Russian case, and an attempt will be made to draw some conclusions about whether Russia is moving toward a market economy.

Polanyi Institutionalism and the Transition Toward a Market Economy

Although several distinct parts of the work of Polanyi may be of great interest in analyzing the transition process that is occurring in countries that until the 1990s were organized by central planning, in this paper only the aspects which are most closely related to the construction of market economies will be mentioned. According to Polanyi, the commercialization of productive factors and money are among the determining elements for the construction of an economic market. With respect to the concept of commercialization, it is necessary to point out a few details. First, in real commercialization it is necessary that the productive factors (and the money) be "free" to be bought and sold; this is a prerequisite so that agents are able to pursue profits through exchange. With respect to such "liberty," it should be noted, on one hand, that it should not take place sporadically but continuously (social institution) (Stanfield 1980, 596) and, on the other hand, that the exchange relations should be determined and relegated to a separate level from all other social relations. A second clarification is that exchange relations should cover the productive factors that are essential in the process of social reproduction. In particular, Polanyi emphasized the case of labor, but also that of land, given its relevance with respect to his object of study, the transition of England toward a market economy. Polanyi also paid special attention to the changes that money experienced as a strategic extension mechanism in international market relations and as a mechanism of integration in national markets.

Under these conditions, Polanyi noted that the system of institutions that constitute a market economy functions when the exchange relations are generalized and come to be dominant, determining the logical and dynamic functioning of the land, its labor, and its money (Polanyi 1957a). Nevertheless, it is noticeable that the domination of exchange relations within the society appears to be determined by the role that the rest of the social relations play as well as by the existence of an explicit political willingness on the part of the state that directs its attention toward such a transformation.

Following the theoretical provisions of Polanyi (March and Sánchez 1999b), it is understood that after destroying the organizational and institutional structure that supported central planning there is no reason for the market to spontaneously emerge. In a context where exchange relations occupy a secondary position within the organization of the society, determining the behavior of the economic agents in a secondary manner, it is unjust to adopt the hypothesis that the mere destruction of part of the existing institutional framework of the centrally planned economies would convert market relations into a dominating force. In effect, the breakup of the organizational structure of the central planning system led to an increase in the decentralized relations between economic agents. But it is difficult to immediately assume that such relations would be definite in their central nucleus because of the exchange through which the social agents would try to obtain a monetary profit.

All things considered, while from the orthodox point of view decentralization and exchange relations are identified with one another, Polanyi's approach permits the introduction of additional elements that distinguish them from each other. So the theoretical contributions of Polanyi, especially the references to the different principles of social organization (forms of integration) and to the non-spontaneity of the domination of the exchange relations over all else in the society, provide new analytic dimensions to explain the processes of economic transition.[2]

Even though Polanyi's institutional ideas can generally be applied in the explanation of the transition of economies with central planning, an in-depth analysis of the economic phenomenon requires an adaptation and specification of the ideas of this author. With respect to the first, the essential factors that must be present to evaluate the transition to a market economy refer to the extension of exchange relations to certain essential elements of the society causing this economy to function and reproduce, that is to say, an extension to those elements that define the production process: land, work, and the means of production. It should be mentioned that due to Polanyi's analysis objective, the construction of a market economy in England, the productive factors that he attached more importance to were the first two (Polanyi 1957a; 1977, 10–11). Due to the change in the object of study to that of economic transition, the means of production will be considered explicitly.

On the other hand, according to Polanyi another factor, money, must be added.[3] In particular, money must permit the generalized convertibility between the different productive factors, that is, it must create the foundation that allows the extension of exchange relations. These requirements are manifested when money has an associated price, that is to say, a type of interest. In this context a commercialization of money can be spoken of (Polanyi 1957a, 69).

So, then, the challenges of transition toward a market economy in the societies organized by central planning can be synthesized using the institutional ideas of Polanyi in both realms. In the first place, the productive factors (land, labor, and means of production) must be "liberated" in such a way as to make them exchangeable. As Polanyi himself affirmed, "all factors involved must be on sale, that is, they must be available in the needed quantities to anybody who is prepared to pay for them" (1957a, 41). In the second place, money must be commercialized in order to make a generalization about the exchangeability of the productive factors.[4]

The ideas put forward up to this point allow some criteria to be established for the analysis of transition toward a market economy. Nevertheless, as has been indicated above, a more in-depth study of this phenomenon requires providing these forenamed criteria with specific content. With respect to the transformation of land into a commodity, this supposes the possibility of its free exchange so that it might be mobilized to obtain a profit linked to its exploitation. The construction of a market economy requires the privatization of land ownership so that the rights of private ownership are extended over it. For full commercialization of land it is also necessary to liberalize its use, fully disposing of the production generated by its owner, at the same time permitting the full transmission of land ownership rights, among possible buyers (buying-selling) and between different generations (inheritance). The limits of privatization or property rights present obstacles to the transformation of land into a commodity. During the Soviet period special attention was paid to state control of the agrarian sector. This was manifested in the intense collectivization of the 1930s. The only possibilities for non-state-owned property appeared in the form of individually used parcels that the rural population, and less extensively the urban population, were permitted to manage. The production so obtained was intended for self-consumption but, in certain cases, was sold, although not in a regular manner. That is, the exchange relations associated with land during the Soviet period, when they existed, were very marginal.

As for the commercialization of labor, it involves the dependency on a monetary wage linked to the performance of a job within the productive apparatus. The extension of exchange relations to labor supposes its full attribution to the productive field, with potentially full geographical and functional mobility, and its major dependence upon, or total respect for, the income generated from its productive activity (wages). In this sense, during the period of central planning, a process of industrialization took place that very closely linked the population to the productive activity of the society. Nevertheless, even though the workers were paid monetary incomes (wages), the majority of their compensation was in kind and not directly linked to their specific productive activity (allocation of housing, social and community services, and so on). So, then, the commercialization of labor requires the elimination of incomes parallel to those obtained by direct participation in the productive apparatus since these incomes limit the necessity of orienting work toward sale.

Regarding the means of production, as with land, its transformation into a commodity meant the privatization of the productive units that produced them (firms), the possibility of acquiring the means of production, and the full availability of its use by the owner. Nevertheless, with respect to the means of production two areas of discussion must be distinguished: first, those related to their own means of generated production (for example, investment goods) and, second, those linked to the production plants that produce the latter. With respect to the first area, institutionalization of the buying-selling of the means of production must exist. As for the second field, the regulation of the flow of production is very important, through the evaluation of the economic profitability/viability of the activities that are being performed. This last aspect refers to the elimination of the nonproductive activities that appear regulated by the application of bankruptcy legislation. The consolidation of a market economy leads to the appearance and extension of a securities market through which an evaluation is performed complementary to the aforementioned one concerning the profitability/viability of production plants. This entire process of evaluation of the means of plants and production is carried out through the establishment of a financial system and, in particular, by way of the development of a banking system. These elements permit resources to be liberated and put in a situation of commercializable supply and demand while at the same time establishing the prices at which the exchanges will be performed. During the time of central planning the objectives of production and distribution, as well as the setting of prices, were decided by administrative entities outside the enterprise in such a way that its profits had practically no relevance. Therefore, the relations that firms had with one another and with the public could at no time be qualified as commercial exchange according to the conception of Polanyi.

In the last place we have the commercialization of currency. According to Polanyi, "we are familiar with the manner in which trade, the use of money and market elements are integrated under a market system. The manner of integration, however, in the absence of a dominant market system is obscure" (1969, 191). If productive factors are not commercialized the existence of a market system is inconceivable and, in a situation such as this, money doesn't assume its own role in a market economy. With respect to this, Polanyi indicated that in modern societies the distinction between the different uses of currency does not possess a practical interest. Nevertheless, for the analysis of the Russian transition, it can be useful to refer to some of the typical lists of the functions of money, since its contrast with the Russian reality allows one to more clearly appreciate the non-commercialization of the currency. In short, money can carry out, at least, four types of functions: form of payment, standard of value, store of wealth, and means of exchange (Polanyi 1977, 102–109). These functions have appeared separately in centrally planned economies because the currency has played the part of ratification of previously established administrative decisions. In the first place, production objectives and supply plans were given to the firms, and their production was assigned. In the second place, in accordance with the production plan, they were allocated some funds whose destination, regarding the supplier and the acquired input, appeared preset, with no changes being possible in this respect. Therefore, the currency served neither as a widespread form of payment nor of exchange. An extreme case of this inconvertibility appeared regarding inter-firm transactions that were carried out with bank transfers (not convertible into cash), while the transactions between firms and workers were carried out using cash (Dembinski, 1988). On the other hand, when completing the plan, the benefits (or losses) of the firms were absorbed by the state administration, with money not serving as a mechanism of accumulation; that is to say, the currency didn't serve the function of accumulation of wealth for the firms. It should also be pointed out that in terms of the administrative level of planning, the type of units considered was different, so that the currency didn't carry out the function of unified countable unit. In short, until the currency is able to, at least, simultaneously assume these functions, it will not be able to acquire the character of all-purpose money (Polanyi 1957b, 264), an essential element to make possible the transition from markets toward self-regulating market systems.

The construction of a market economy means that the productive factors are regulated by exchange relations, that is to say, not only are land, means of production, and labor transformed into commodities but also money itself. When this process of commercialization reaches its peak and reproduces itself, it may be said that a market economy in countries in transition has been established. The commercialization of productive factors (and of money) determines the behavior of agents and, because of this, is transformed into the essential institution of a market economy.

The Economic Transition in Russia

The commercialization of land in Russia has its roots in the privatization process.[5] Despite the fact that the Soviet Union adopted certain legislation during the last years of its existence that permitted the development of some nuclei of private agriculture in rural areas of Russia (Tyagunenko 1993), it was in 1991 that important legislation was approved. In December, a presidential decree was approved that allowed the restructuring of Soviet collective farms in joint-stock firms. In the restructuring process the possibility of transferring parcels to the members of the collective farms was considered, making these members the new owners of private property. In 1992, after the breakup of the Soviet Union, the Land Code was approved. It consolidated the privatization legislation issued up to that time, but it should be pointed out that at the end of that same year the sale and purchase of land was approved by the Parliament, although with temporary limitations and with very severe restrictions about the purchaser of the sold land. In 1993, a government resolution was approved whereby the specific norms were considered to execute the sales and purchases of land approved the previous year. This land privatization legislation was consolidated institutionally in the approval of two essential legal documents: in December 1993, the Russian Constitution and, in October 1994, the Civil Code (Prosterman, Rolfes, and Mitchell 1995, 175–178).[6] With this legislation as a backdrop until the end of 1994, each collective farm decided, in a council made up of all its members, how it would be reorganized and what type of property it would become. Each member of the farm was able to decide whether he would remain in the collective farm, in which case his corresponding portion of land became the property of the community. On the contrary, he could choose to leave the farm, having the option of receiving his parcel of land or monetary compensation, depending on the decision of each respective farm (Wegren 1998).

The restructuring in the agrarian sector resulted in a privatization of the collective and state farms, which were transformed into corporations. Nonetheless, actual changes in management, organization, or use of the property did not take place at all. It may be pointed out that within this economic sector there appeared private farmers who could make up the nucleus of a possible commercialization of land. However, this consideration appears questionable because of the reduced number of farmers, the small amount and low quality of land available, and also its small productive impact on the whole of the sector (Wegren 2000). On the other hand, the transfer of property owned by private firms presented problems. First, in the case of the owners wanting to transfer the land, the mother-farm has the first option of acquiring it. Second, in the case of the owner being someone who is not from the area, special permission is required. Third, the use of the land can not be altered. In addition, the mother-farm has the right to repossess the parcel if it is not used during the period of one year (Prosterman, Rolfes, and Mitchell 1995).

Another noteworthy part of the reorganization was the distribution of small parcels of land to the urban population (near the cities). Even though this type of family use existed during the Soviet era, beginning in 1990 it became more common and each person who lived in a city could obtain such a parcel for the production of agricultural products for personal consumption. Specifically, in each region a land bank was formed to be divided in this way, even though its non-agrarian use was limited, while at the same time additional restrictions were introduced related to the agrarian experience and education of the recipient. In the same sense, the possibility of buying and selling these parcels by city residents was established, although also restricted to agrarian applications (Wegren 1998). With respect to family use, in the first half of the 1990s an important phenomenon concerning the exchange of parcels took place, generally in the form of bartering and without the aim of obtaining any monetary gains, given that the final objective was to possess a parcel of land to produce food for personal, family consumption.

So, then, land reform in rural Russia has created three agents: agrarian firms that have inherited the old collective organization, private farmers, and personal family farms. Nevertheless, in terms of production, the large agrarian firms are still the largest contributors to overall agrarian production, while private farms provide a very modest quantity. The family farms are in a different situation because, although they are of practically insignificant size in terms of production, they provide substantial quantities of those products essential for the maintenance of the family itself.

Therefore, with respect to agrarian land, although formally a certain commercialization was generated, in practice the restriction to access, sale, and use of this land hinders, from the start, its commercialization (Wegren 1997; Barnes 1998). Nonetheless, demographic and sociocultural problems typical of the rural areas that show a rejection of these abrupt changes and, specifically, of privatization must also be mentioned (Wegren and Durgin 1997).[7] That is to say, the intervention of the state has prevented the market from becoming self-regulating, and it has maintained part of the bureaucratic regulations coming from the Soviet period.

With regard to the commercialization of labor, the existence of wages and the dependence of the population on their work are a legacy from the industrial society created during the Soviet period. With respect to this, it should be clarified that at that time the connection between the meeting of essential needs and wages was almost nonexistent, given that the majority of these needs were met by the state. During the transition period the population's dependency on this official wage has continued to be very limited. Even though the workforce receives an official wage, it should be noted that there is a very big difference between monetary and non-monetary incomes. Besides the primary wage, monetary income is often present from the performance of a second job, as well as from sporadic work (Sanchez 1997).

Therefore, at first glance one can affirm that a wage exists, which you can identify as the price of manpower. However, a deeper analysis of the economic situation during the transition questions this statement. In the first place, a weak correlation exists between variations in employment and variations in production and, at the same time, exactly the same thing happens between the latter and variations in wages. That is to say, wages are not a mobilizing element of the productive work factor. To this type of consideration it is necessary to add, on one hand, that the reduction in employment is a result of the decisions made by the workers themselves and, on the other hand, that one cannot affirm that geographical barriers in Russia are any harder to overcome than those of developed capitalist countries. That is to say, it cannot be argued that these last two elements are obstacles that impede the use of wages as the price that mobilizes manpower. On the other hand, the great variation in wages should be pointed out. Wages are not related to levels of productivity and qualification degrees but linked to historical traditions and depending on sectorial factors, elements that further detach wages from their identification as prices of productive factors (Clarke 1999, 37–46).

Moreover, the population has the benefit of all of the social infrastructure created during the Soviet period, which, even though partially deteriorated, provides essential support. In fact, this infrastructure can be considered as an income in kind for being Russian. Within this infrastructure it should be noted that housing is provided at almost no cost, community services are subsidized and sometimes even free (telephone service, electricity, running water, hot water, and heating), or social services are provided (health care and education) (Commander and Jackman 1997; OECD 1995). These factors acquire more relevance insofar as the old productive units, state owned as well as private, continue reproducing the influence of the Soviet model of behavior. This model guarantees certain social services to the workers and to their respective families. As has been noted earlier, from the beginning of the 1990s the population has generally been supplied with a parcel of land which is cultivated during the summer months and which provides the family with an important part of its essential food goods. In the absence of this type of parcel, food products such as these are frequently obtained through close relations that are maintained with relatives who live in rural areas.

These aspects reveal how little workers depend on their wages (which is an indicator of the low level of labor commercialization), a situation that is reflected in the fact that even though there are frequent and extended delays in paying wages, and also failure to pay wages, this does not have great relevance to the survival of the workers in general (Lehmann, Wadsworth, and Acquiti 1999). Even members of the new private sector, where there is a greater dependence on wages and where access to complimentary services is reduced or does not exist (Clarke and Borisov, 1999; Clarke and Kabalina 2000), are not prevented from having at their disposal, in part, the social services and infrastructures as a direct inheritance from the Soviet period or because they obtain such benefits through relatives.

In short, the labor relationships during the transition appear to be strongly influenced by the Soviet legacy. For Soviet workers, wages did not guarantee their survival; the state and the firm covered an important part of their necessities; production for self-consumption in the dacha and, even, hunting and gathering in forests supplemented the inadequacies of the state provision; and, lastly, family and local relationships constituted a third provisioning environment in which relationships of reciprocity and of exchange prevailed. A good many of these mechanisms remain in effect at the present, and they limit the wage dependence of the workers. That is to say, the persistence of inherited relationships of redistribution and reciprocity discourage the sale of the workforce in the market. Nevertheless, a relative commercialization exists in this environment: second jobs, which are compensated at a freely agreed upon price, although they are only supplemental in nature.

The privatization of state property has created the foundation for the commercialization of the means of production. This transformation has taken place in two stages, the first from 1992 to 1993 (characterized by limits to privatization) and the second after 1994 (in which money was used as a mechanism to acquire property), producing a massive privatization of firms (means of production). Since that time, firms have had the liberty to make decisions regarding supplies, technology, and production. Profit making has also come to occupy an important place in the survival of the firm (Bornstein 1994; Linz and Krueger 1998).

In spite of the fact that in the beginning all the means of production can be acquired with money and administrative orders existed as a condition sine qua non are no longer required for the mobilization of these resources, it must be pointed out that in practice such commercialization is incomplete. Specifically, the immense volume of unpaid debts between businesses, the cancellation of debts by way of payment in kind, or the extension of barter brings into question commercial exchange relations as determinants of what happens to the means of production. That is, depending on the situation, the form of payment, or the client, a means of production has one price or another, in addition to the fact that the transmission of the means of production can be founded in relations that are not connected to the exchange. Additionally, for the calculation of prices the inability to define the costs of production brings into question the very foundation of the formation of prices for the means of production (Commander and Munssen 1998). In reality, as much in the formation of costs as in the determination of retail prices, both economic factors and, especially, non-economic factors are influential. Therefore, we do not agree that a strict transformation of the means of production exists.[8]

This partial commercialization of the means of production was complemented by the adoption of a bankruptcy law, the creation of a stock exchange, and reinforcement in the design of a banking system fashioned after the western model. Bankruptcy law should be used as an indicator of how effectively firms are excluded which are not of value within the exchange relations, that is to say, those without the characteristics of commodities. In the new capital market a portion of the firms with a higher degree of commercialization would enter. This would create a reference point for the rest of the productive units. That is, the stock market constitutes a symbol of the consolidation of exchange relations as determinants within the society. The banking system would become consolidated as a control mechanism of the firms, especially through the granting of loans that would regulate the real activity of the economy. It must be pointed out that banks could also influence firms' activities through the control of their ownership.

Massive privatization has not meant that the firms' activities (means of production) are strictly guided by exchange relations. In fact, the largest volume of managerial flows appears determined by exchange in kind, monetary compensation, accumulation of unpaid debts, maintaining of economic relations determined by the firms' historical trajectories, and so on (Poser 1998a). That is to say, the functioning and relations between firms depend not so much on the exchange relations founded on the obtaining of monetary profits but rather on other types of connections whose foundations are solidarity, cooperation, and so on. It may be pointed out that the large size of the firms and the dependency of the social infrastructure, and even of the very cities, on the firms determine their privatization, as well as that of the infrastructures or of the land itself (OECD 1997).

Bankruptcy laws have not had perceivable effects so far. Therefore, firms that generate production without market value have not obtained income but continue to exist, even though in many of these cases part of the production has been reduced and their debts with respect to other firms have increased. With respect to capital markets, they have been presented in segmented form (divided by sectors, regions, and even economic activities), in such a way that they have not formed a reference point for the evaluation of the commercialization of firms and have remained, almost exclusively, within the realm of speculation, unrelated to the country's actual economy. With regard to the banking sector, its involvement in the productive sector has been very small, and its credit activities have been based on speculation (Johnson 1994; OECD 1997). This last factor has worsened due to the state's demonstrated inability to control banking activities, which has been manifested in the periodic appearance of serious banking crises (Buchs 1999).

Together with the above limitations related to the commercialization of the means of production appears the absence of monetization of the economy. This problem is manifested, essentially, in three forms: unpaid debts, barter, and the issuance of promissory notes (*veksels*). The generalized unpaid debts in the Russian economy appeared during the very beginning of the transition (Ickes and Ryterman 1993), destroying the foundation of commercial exchange relations. Subsequently, they adopted other forms such as postponement of payment and then, as the quantities were not indexed, the inflationary process "unpaid" de facto part of the debts. The impossibility of paying with money has led to the extension of payments in kind or barter.

Barter involves the direct exchange of a diverse array of goods, such activity appearing to be based on the value of use itself that is assigned to the product that is the object of exchange. It is estimated that in 1992 bartering constituted 6 percent of commercial operations, while in 1997 it represented 41 percent and appeared to be increasing (Aukutsionek 1998a; Shlapentokh 1997, 873). Initially barter took on a simple form with the firms acquiring the goods they needed directly. However, the extension of this type of phenomenon has transformed it into something more complex. Specifically, some systems of multiple compensation (clearing) between groups of firms have been established that have granted the mechanism a greater fluidity (Yakovlyev 1998; Aukutsionek 1998b). In spite of being transformed into a more complex part of the barter system, it has not lost its essence: the search for the value of use rather than that of exchange. Additionally, the establishment of barter determined the relations between the distinct participating agents, given that some were excluded (for example, because their production was thought to be of little use to potential clients) while certain productive activities were favored over others in terms of the possibilities that the barter itself presented. On the whole, barter activities have damaged the relations between the different economic agents and have become an obstacle to the formation of prices. In this way, the transmission of information concerning the quantity and quality of the products exchanged has been hindered and, therefore, the extension of competition between participating agents has been obstructed (Poser 1998b, 162–163).

A more sophisticated way of favoring the relations firms have with each other, the public, or state institutions has been the issuance of promissory notes as an alternative to the use of money in the performance of exchanges and the cancellation of debts. This type of financial instrument has been employed as much by firms as by regional state institutions. It is estimated that more than 25 per cent of the commercial transactions in

Russia rely to some extent on promissory notes. On the other hand, no generalized recognition of such financial instruments exists, while at the same time no equivalent exists for them. Therefore, the generalization of this type of financial instrument has impeded the creation of a single financial space in Russia and made impossible the establishment of an integrated realm for conducting homogenous dealings, the foundation of the exchange relations that support the market as an institution.

The three cases shown are leading to the failure of the ruble to acquire the rank of all-purpose money because it does not unify the four essential functions of a currency as a commodity. The massive use of barter shows that the ruble is only utilized in a marginal way as a mechanism for the cancellation of debts (means of payment). On the other hand, the issuance of promissory notes generates a multitude of means of exchange whose validity depends, at least, upon the regional environment, the type of clients, and the issuing institution, as well as the kind of transaction that is being performed. That is, the ruble does not fulfill, more than partially, the function of a means of exchange. With regard to money as a standard of value, even though at first the ruble was employed as a countable mechanism, the widespread use of barter and promissory notes will change the final outcome of its countability. Finally, the ruble fulfills the function of storage of wealth in a residual manner, due to elevated inflation but also, especially, due to its limited use in commercial transactions. At the same time, the use of promissory notes and other goods does not fulfill this function either, since they have a very short life. Additionally, the ruble's problems with becoming an all-purpose money are worsened by the high degree of dollarization in the economy (Brodsky 1997), which occupies the limited space where the Russian currency gives support to exchange relations.

Conclusion

Through the institutionalism of Polanyi it can be deduced that one of the limits to constructing a market economy in Russia may appear related to the difficulty of transforming diverse productive factors—specifically land, means of production, labor, and money—into commodities. In this sense, the separation of institutions formerly linked to central planning does not imply the spontaneous commercialization of these factors and, therefore, it does not mean the appearance of a new productive process mediated by exchange relations.

In Russia decision making has been decentralized, although it can not be affirmed that exchange relations (market institutions) organize the functioning of productive factors. Rather than being transformed into a dominant feature, exchange relations (market institutions) now constitute one of the many relations that determine the behavior of economic agents in Russia. Specifically, the degree of commercialization of the productive factors is still residual, and money does not constitute, in practice, a mobilizing element of productive resources. Therefore, it can be concluded that in the Russian case the essential functioning mechanism of a market economy has not been introduced.

During the transition process an aggregate of social relations is forming in which those involving exchange carry out a role that is complementary to the rest of the relations (reciprocity and redistribution). In this context, the framework of social and institutional relations that has been emerging does not guarantee that the Russian economy will effectively transform into a market economy. Therefore, a question mark appears concerning future Russian economic trends as well as a great uncertainty about the direction the transition process will take in this country.

Notes

1. Specifically, these reforms should lead to economic stabilization and growth. However, the majority of the countries in transition have remained excluded from these economic benefits. This has been justified by claiming that there has been insufficient economic liberalization. Nevertheless, the question of why these reforms have not been applied has still not been clearly answered (Aslund, Boone, and Johnson 1996).
2. The orthodox conception assumes that when economic decentralization takes place, the principle of social integration is that of exchange. An important characteristic of the works of Polanyi is the existence of other principles of social integration: reciprocity, redistribution, and domestic administration. Regarding the latter, an important debate exists about its singularity as an integration mechanism, on which Polanyi himself changed his position. Nevertheless, the objective of this work is not to discern what type of social integration exists in the current Russian economy. In fact, having this other objective would mean being willing to implicitly admit that such an integration exists. However, this consideration is not evident and would require a separate study. With respect to this see the works of Polanyi himself (1957a; 1977), as well as those of S. C. Humphreys (1969), William Schaniel and Walter Neale (2000), or J. Ron Stanfield (1986, 65–79).
3. With regard to this type of aspect, it should be kept in mind that different positions exist concerning the delimitation of money, means of production, and capital. An in-depth discussion of this question is not necessary for the purpose of this paper, and the position of Neale is adopted (1987, 1201).
4. It should be pointed out that these conditions become necessary but not sufficient in themselves to construct a market economy in a society in transition. In effect, the final result depends not only on the establishment of some formal institutions but also on the combined influence of informal institutions, that is to say, on the impact which the combination of the rest of these social relations has on them (Neale 1991).
5. For a more in-depth explanation of current Russian reforms, see Boycko, Shleifer, and Vishny 1995, Ernst, Alexeev, and Marer 1996, Gregory and Stuart 1998, Leitzel 1995, and Woodruff 1999.
6. In 1994 the Civil Code of the Russian Federation was passed. It recognizes the rights of the owner to possess, use, and transfer ownership of his property (art. 209) and, especially, the land owner's right to sell, transfer, mortgage, or rent his parcels, even though it is clear that the use of this land for non-agrarian applications is still not allowed (art. 260). Note that this legislation requires the enforcement of complementary judicial norms to make these rights truly effective, although at present they still have not been passed.
7. These factors refer to the existing informal norms as a basis for the willingness to put into practice market institutions, as they define the latter. This type of phenomenon is especially

visible in the case of the reforms applied to the ownership of agrarian land (Grossman 1997, 252).

8. In fact, the very incomplete commercialization of the means of production has led some authors to affirm that the problem of Russia's economy is that it destroys the added value (Gaddy and Ickes 1998).

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