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## **INSTITUTIONAL TRAPS: IS THERE A WAY OUT?**

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As is common knowledge, any legislative framework is likely to generate different institutions or norms of behavior which the legislator occasionally could have never foreseen. A market-shaped trajectory of economic growth may prove inefficient. I suggested a general pattern, on which inefficient, if stable, norms or institutions called institutional traps would form.<sup>1</sup> The theory proved capable of explaining a number of important phenomena observed in the period of large-scale institutional transformation in Russia and other post-communist countries. Specifically, it demonstrated that structurally identical mechanisms gave rise to and supported such seemingly heterogeneous phenomena as the growth of barter exchanges, arrears, shadow economy, and corruption. Coordination, learning, linkage and cultural inertia effects are responsible for the emergence of institutional traps. As is evident from analysis, institutional traps are the main danger in any reform process, and avoiding them is a crucial task arising before reformers.

Let us assume, however, that unfortunate policies or unforeseen circumstances did push an economy into an institutional trap. Can it get out? And if it can, what mechanisms might be employed for the purpose? The task is certainly nontrivial because the system is in equilibrium or moves along an equilibrium trajectory and therefore economic agents are not going to benefit by altering their strategies within the framework of means they possess. The system's equilibrium is not Pareto-efficient, or, to put it differently, there is a chance to improve the situation for all economic agents simultaneously. But to achieve that, their coordinated action is needed. No one is able to improve the situation by acting within the existing institutional system, each prefers to remain in "bad" equilibrium, to wit, in an institutional trap. To emerge from it, an alteration in the effective institutions is required, resulting from a spontaneous evolution or from purposeful government interference.

### **1. Introduction**

It is well known that in any legislative framework different, sometimes unforeseen by the legislator, institutions or norms of behavior may arise. In this case, the trajectory of economic growth formed under the influence of market forces may turn out to be inefficient (Arthur (1988), North (1990)). The author's works (Polterovich, 1999; Polterovich, 2000a) proposed a general scheme for the formation of inefficient but stable norms,

or institutions that have been called institutional traps. The developed theory was able to explain a number of important phenomena observed during a large-scale institutional transformation in Russia and in other post-communist countries. In particular, it was demonstrated that such heterogeneous, at first glance, phenomena as the growth of barter, non-payments of the shadow economy, corruption are generated and supported by structurally similar mechanisms. The effects of coordination, learning, conjugation and cultural inertia are responsible for the formation of institutional traps. The analysis showed that the emergence of institutional traps is the main danger in carrying out reforms, and avoiding them is one of the most important tasks facing reformers.

Suppose, however, that as a result of unsuccessful policies or unforeseen circumstances, the economy is in an institutional trap. Is it possible to get out of it, and if so, at the expense of what mechanisms? The task is obviously nontrivial, since the system is in equilibrium or moves along an equilibrium trajectory, which means that it is not profitable for economic agents to change their strategies within the framework of the means at their disposal. The balance in the system is not Pareto - effective, in other words, a simultaneous improvement of the situation for all economic agents is possible. However, this requires their coordinated actions. No one is able to improve the situation, acting within the existing institutional system, everyone prefers to remain in a "bad" equilibrium - in an institutional trap.

To get out of the trap, it is necessary to change the existing institutions as a result of spontaneous evolution or targeted state intervention.

The question of how to get out of a particular institutional trap (how to fight corruption, defaults, the shadow economy, etc.) is the subject of extensive literature. But the overwhelming majority of proposals are in the nature of recipes, not included in any theory or having a serious justification. They, as a rule, do not lead to success and, at best, give only a temporary effect.

However, a number of articles dealt with just general mechanisms for escaping institutional traps. First of all, one should refer to the research of the prisoner's recurring Dilemma - the simplest game-theoretic model, where effective and inefficient equilibria coexist. It is well known that the repetition of this game, that is, an increase in the players' planned horizon, makes it possible to exclude inefficient equilibrium strategies (see, for example, the application of such an idea to the problem of corruption in the article in Bicchierri and Rovelli, 1996). Below we will return to the discussion of this model.

Reputation mechanisms are important for getting out of some traps. They contribute to the suppression of deviant behavior and the coordination of the strategies of various agents. The corresponding theory was developed in (Tirole, 1993).

If the institutional trap is associated with the appropriation of rent, then the exit from it is greatly simplified while accelerating economic growth (see Polterovich, 2001, Balatsky, 2002).

The purpose of this paper is to systematically review and compare the above-mentioned and a number of other tools and institutions that can contribute to the destruction or at least the weakening of the mechanisms supporting institutional traps. The discussion is based on the concepts of the theory of institutional traps (see Polterovich, 1999). To make the presentation independent, we explain them in the next section.

## 2. Basic concepts

A rule is a rule that large groups of agents follow or must follow. In any sphere of economic or social activity at any given time there are many alternative norms, so that each agent has to choose which one to follow. For example, an official is faced with the choice of whether to take bribes or live on a salary.

Each agent interacting with partners in the framework of a given rate incurs the corresponding transaction costs. So, for an official who chose corruption as the norm of behavior, transaction costs are associated with the probability of being detected and punished.

The transition from one standard of behavior to another is also associated with costs, which we call transformational. If, for example, a firm decides to abandon barter transactions, it should look for new partners. Search costs, losses associated with insufficient information about counterparties are part of the transformation costs.

In order for the norm of behavior to be stable, it must be unprofitable for agents to deviate from it. The main type of mechanisms that ensure the stability of norms uses the so-called coordination effect. According to this effect, the greater the number of agents that follow a certain standard of behavior (and the more consistently they perform it), the less transaction costs associated with it and the greater transformational costs each individual agent decides to violate. For example, the more massive the tax evasion of firms, the less likely it is to be punished for each individual firm and, accordingly, the less transaction costs associated with evasion. Deciding to honestly pay taxes, the company will be forced to change partners because of the difficulties of interacting with the old ones that remained "in the shadow".

Transformational costs will be higher with a relatively smaller number of potential counterparties in the "white sector" of the economy.

Over time, the transaction costs of operating within the accepted norms of behavior decrease due to the effect of training: agents acquire skills and invent technologies that reduce costs. If the company decided to pay taxes, then the technology of presenting tax returns will be improved (sending by mail, filling in the Internet, etc.). If tax evasion is massive, then completely different technologies will receive priority development. Trade infrastructure will vary significantly for systems where barter or money exchanges dominate. The reader can easily give other examples. In each case, a decrease in transaction costs and an increase in transformation costs contribute to the consolidation of the norm.

The resulting norm with time turns out to be embedded in the system of other norms, coupled with many other rules of behavior. So, "coming out of the shadows" (i.e., becoming an honest taxpayer), a company is often forced to change strategies for hiring employees, getting loans, etc. We call this phenomenon the conjugation effect. It leads to an increase in transformation costs and, accordingly, to further consolidate the norm.

Another stabilizing mechanism, cultural inertia, arises from the reluctance of agents to change behavioral patterns that have proven their effectiveness in the past. At one of the seminars in 1997, the speaker, a businessman who was accustomed to barter, said that he would not switch to the monetary form of payment, even if he could take an interest-free loan: you must return it!

Some of the alternative norms of behavior may be Pareto-effective, while others are not. If an ineffective norm dominates in the system, then it turns out to be in inefficient equilibrium; Such an equilibrium can be improved within the same technological and resource constraints for all agents simultaneously. Pareto-effective norms lead to unimprovable equilibria in this sense.

We call an inefficient stable norm (an inefficient institution) an institutional trap.<sup>2</sup> In the following, the term institutional trap is also applied to the inefficient equilibria generated by the corresponding norm. Stability in this context has the usual meaning. It means that in case of small disturbances, the system remains in the institutional trap, perhaps, only slightly changing its parameters, and returns to its former state as soon as the source of the disturbance is eliminated.

An individual agent or a small group of them incur losses, deviating from the institutional trap. However, the simultaneous transition of all (or even a significant part of the agents) to

an alternative norm may lead to Pareto improvement (ie, to the improvement of the position of all participants). Lack of coordination is the main reason for the sustainability of institutional traps.

The possibility of institutional traps is an important source of risk associated with economic and social reforms. In all cases known to us, the formation and consolidation of traps is due to the effects of coordination, learning, conjugation and cultural inertia listed above.

For many economic and social systems, equilibrium (equilibrium development trajectory) is not uniquely defined. Suppose that the system is dominated by the effective rate, and, accordingly, the economy is in effective equilibrium. With strong indignation, it can fall into an institutional trap. If now to remove indignation, then it will not return to its former state. This is the so-called hysteresis effect, which is a form of dependence of the state of the system on the past development path (path dependence). An example of hysteresis will be discussed in the last section of the article.

A number of unexpected phenomena observed in the process of large-scale reforms of the 1990s, including a sharp increase in non-payment, corruption, the shadow economy and barter exchanges, can be explained by the formation relevant institutional traps. Below we will widely use these examples.

Once in the institutional trap, the system chooses an inefficient trajectory, and over time the transition to effective development can be very difficult, if not impossible. Below we will show that under certain conditions this possibility still exists, and we will try to indicate some ways to implement it.

### 3. Exit institutional traps

There is reason to believe that institutional traps are more likely to be sustainable only in the medium term, and that economic systems are gradually developing mechanisms that promote exit from inefficient equilibria. The theory, briefly outlined above, provides a basis for a systematic consideration of such mechanisms.

According to the foregoing, agents will prefer a transition to an effective standard if the amount of the corresponding transaction costs and transformational transition costs corresponding to it turn out to be less than the reduced transaction costs of operation within the current ineffective norm<sup>3</sup>.

It follows that in order to get out of the trap, at least one of three tasks must be performed: a) to increase the transaction costs of the current ineffective norm; b) reduce the transaction costs of an alternative effective rate;

c) reduce the transformation costs of transition to an alternative standard. In order to achieve these goals, coordination, conjugation and cultural inertia mechanisms should be appropriately influenced.

Below we look at the micro and macroeconomic measures that can be taken by the government, as well as spontaneous trends that sometimes lead to exit from institutional traps.

#### 3.1. Microeconomic measures and macroeconomic policy A. Sanctions

The simplest recipe for increasing the transaction costs of an ineffective norm is the imposition of suitable sanctions, such as strict criminal liability for corruption or a high tax on barter transactions. In the late nineties, China introduced the death penalty as a punishment for bribes. At first glance, this measure turned out to be effective: in 1996, experts considered China to be one of the most corrupt countries, and two years later put it in a much more honorable place. The percentage of countries with a higher level of corruption than China rose from 11% in 1997 to 39% in 1998 (see Table 1; countries ranked according to the perception index of corruption), so China moved from the bottom of the list of countries almost to its middle.

In fact, however, strict sanctions can lead to high costs.

There are at least three sources of such costs. First, when tightening sanctions may increase the cost of their implementation, in particular, in connection with the increase in resistance of those who are subject to sanctions, the need for total control, etc.

Secondly, sanctions aimed at preventing undesirable behavior of a certain type can lead to its replacement by an even more inefficient norm. As a result, the system may move from one institutional trap to another. For example, severe penalties for non-payment may induce firms to "go into the shadows."

Table 1. PERCENT OF COUNTRIES WITH A HIGHER LEVEL OF CORRUPTION (according to the corruption perception index)

2002

Higher than in Russia, %

13

6

eleven

eleven

27

Higher than in China, %

eight

eleven

39

36

42

Source: Transparency International (Tanzi (1998)), [www.transparency.org/cpi](http://www.transparency.org/cpi)

Third, the possibility of erroneous sanctions should be taken into account. The more severe the punishment, the more social the costs resulting from the punishment of an innocent person.

B. Reputation mechanisms.

The development of reputation mechanisms is another opportunity to increase the transaction costs of corruption, defaults, tax evasion, etc. (Tirole, 1993). Their formation is only partially connected with state decisions. In other respects, it is determined by spontaneous processes. At the beginning of the Russian reforms of the 1990s, the old reputational mechanisms (in particular, the system of "personal files", characteristics, etc.) ceased to work. New mechanisms emerged gradually due to the strengthening of the state and the formation of new business networks (Radaev, 1998).

Reputation mechanisms not only increase the transaction costs of inefficient norms, but at the same time reduce the transaction costs of effective behavior. By establishing a link between the behavior of an economic agent (individual, firm, etc.) in the past and its current remuneration, reputation mechanisms contribute to positive cultural shifts, prompting agents to increase their planned horizon — the period in which they take into account the consequences of their decisions.

C. Amnesty

Transaction costs of operating within a certain standard may depend on the agent's background. So, if the "malicious defaulter" decided to pay taxes in good faith, this may have little effect on the likelihood of bringing him to criminal responsibility. Accordingly, his incentives for transition are reduced.

Reputation mechanisms reinforce this effect and therefore can play a negative role in their extreme forms. Amnesty - "a tool for forgetting the past" helps reduce the component of the transaction costs of the effective norm, which is associated with its history "before the transition".

Amnesty for various violations of the law is used by many governments. Success, however, is not always achieved. Amnesties should be rare, unpredictable events, otherwise they can stimulate deviant behavior. They need to be carried out at the right moment, when the fundamental reasons that gave rise to the trap have already been eliminated, and supplemented with other measures that also weaken the effects of coordination and conjugation. These conditions were not satisfied with the partial non-payment amnesty, held by the Russian government in July 1992 (the so-called charge transfer). As a result, the economy remained trapped in non-payment.

#### D. Macroeconomic policy

Until recently, many economists believed that the effect of macroeconomic policy depends little on economic institutions, and that its effect on institutions can be neglected. It turned out, however, that both of these statements are incorrect if economic institutions are in the formative stage. In Russia in 1992, the standard policy of suppressing inflation by curbing the growth of the money supply with an undeveloped system of cashless payments, the absence of a capital market, and not working bankruptcy law led to the non-payment trap and crowding out barter money exchange (see below). The attempt to imitate the western tax system in conditions when the system of tax authorities has not yet been formed has contributed to the rapid growth of the share of the informal sector. Non-rational social policies contributed to the failure of privatization: insignificant pensions and unemployment benefits, the lack of retraining programs made workers desperately resist restructuring (Blanchard, 1997).

#### 3.2. Spontaneous exit

Let us now consider some spontaneous trends that are not directly dependent on government policy, which can contribute to the elimination of institutional traps.

A number of institutional traps (for example, a corruption trap or a shadow economy trap) are associated with some form of rent-oriented behavior<sup>4</sup>. Each economic agent can invest their time and money in production, or in the activity of rent appropriation. His choice depends on the relative effectiveness of these two options. If rent appropriation is more profitable, agents choose this type of activity, and an institutional trap may arise.

During periods of rapid institutional transformation, huge rental incomes are released.

However, some economic agents are in privileged positions. Liberalization of prices gives an advantage to suppliers of scarce goods. Liberalization of foreign trade allows exporters and (or) importers to profit from the difference between domestic and world prices. The emergence of stock exchanges and securities markets creates fantastic arbitrage opportunities for financial intermediaries.

In 1992, world prices for oil, gasoline and non-ferrous metals were tens and sometimes hundreds of times higher than domestic prices. Under these conditions, investment in lobbying to obtain the appropriate licenses, or in the creation of illegal infrastructure for organizing smuggling, gave an incomparably higher return than investment in production. If the government does not take special measures to extract transitional rent, it will inevitably become the subject of struggle between private agents. An increasing number of resources is diverted from production activities. Production is declining, and this is significantly reduces the attractiveness of production for investors. Coordination mechanisms, conjugation and inertia begin work on the formation of institutional traps.

The situation changes somewhat when the rapid transformation stops and the new institutional structure stabilizes. The former sources of rent have been exhausted: prices in different sectors of the economy have leveled off, property has been distributed, foreign economic activity has been placed under the control of customs authorities. The new elite is interested in preserving acquired wealth, therefore, in securing property rights. For owners of large states, the goal of rapid enrichment ceases to be the only or even dominant, public

recognition plays an increasing role. Stabilization contributes to an increase in the individual planning horizon, the emergence of reputational mechanisms and higher standards of integrity.

The Prisoner's Dilemma model of repetition makes it possible to understand why stabilization can stimulate an exit from an institutional trap. We will reproduce the main idea, using the interpretation of the game, close to the range of problems under consideration.

Imagine two companies supplying third components. Proceeds from the sale of finished products is divided between them equally. Each component can be high or low quality. Finished products are considered to be of high quality and paid at a high price if both components are high quality. It is profitable for each firm to produce quality products if its partner follows a similar strategy. Otherwise, it suffers a major loss.

If firms do not trust each other, then it is likely that both of them would prefer to insure themselves against losses by producing low-quality components. With short planned horizons, this pair of strategies forms a Nash equilibrium: it is not profitable for either of the two agents to change its strategy alone.

However, with a sufficiently large planned horizon, the situation changes. Now, each company can afford to produce quality products in rare moments, demonstrating to its partner the possibility of obtaining more revenue and returning to the previous strategy if the signal is not perceived. In this case, as the analysis shows, firms prefer to coordinate their actions (despite the absence of direct negotiations), and choose an effective equilibrium.

Stabilization creates the prerequisites for escaping institutional traps, but it is not always sufficient for it to actually happen. The yield becomes much more likely if, for any reason, rapid economic growth begins, for example, due to technological changes or due to an increase in world prices for exported products. In this case, for part of the agents, investment in production may be more profitable than investing in the rent appropriation. The influx of funds invested by them supports the process of increasing production capacity, the institutional climate is improving, so the next cohort of investors is switching to financing production. The result may be the complete disappearance of the institutional trap. Growth reduces the transaction costs of "correct" behavior and contributes to the improvement of institutions that promote growth. It can be said that growth in itself is an important growth factor. This conclusion is supported by both econometric research (Chong, Calderon, 2000) and theoretical results (Polterovich (2001), Balatsky (2002), Polterovich (2002)).

#### 4. The evolution of civic culture

Deviation from an ineffective norm of behavior (institutional trap) is not beneficial for an isolated agent, but with joint actions improves the position of each of them. The essence of the problem is lack of coordination. Thanks to the mechanism of coordination described above, agents' decisions are interconnected in such a way that both effective and inefficient norms of behavior turn out to be stable. Rational coordination should ensure the stability of the first and the instability of the second. The ability of agents to rationally coordinate their actions depends on civic culture and the development of civil society.

Most studies on economic growth consider civic culture as an exogenously given and timeless factor. However, some important parameters of civic culture can undergo significant changes within 10-20 years. This circumstance should be taken into account when studying the long-term aspects of development. The following two tables describe the evolution of interest in politics and social trust in West Germany after World War II.

Table 2. Interest in politics in Germany, 1952-77, %

Source: Conradt, 1989, p.239.

Table 3. Can most people be trusted? (Germany, percent yes.)

Source: Conradt. 1989, p.254

As follows from the tables, both the interest in political life and the degree of trust of citizens towards each other quickly and steadily grew<sup>5</sup>. The high level of both indicators is an important prerequisite for social activity and the strengthening of civil society. Note that in Germany the share of respondents belonging to one or another voluntary organization increased from 44% in 1959 to 50% in 1967 and amounted to 59% in 1975

A low level of trust has a direct negative impact on the economy, increasing transaction costs and reducing investment (Zak and Knack. (2001)). With higher levels of social activity and social trust, coordination is facilitated, the chances of getting out of institutional traps increase.

The history of the USA of the 19th century provides a good illustration of how an exit from an institutional trap occurs as a result of the development of civil society<sup>6</sup>. In the period 1815-1840. In the United States there was an intense transformation of political institutions. The property qualification and a number of other restrictions on the right to vote, which effectively excluded a significant part of the population from participation in political life, were abolished. Many public positions that have been filled by representatives of the elite so far have become elected. It seemed that the mass democratic movement had achieved its goals. However, the reforms have led to unforeseen consequences. The emerged mass political parties have become an instrument of enriching party bosses. They distributed posts (including postmasters, customs officers, police officers, etc.) among their supporters, not taking into account neither qualifications nor competence. "Stuffing" of ballots, incorrect counting of voting results have become commonplace. Employees were forced to give up part of their salaries to the political party, which nominated them for the relevant positions. The police became a tool of policy rather than a body enforcing the law. Corruption flourished. Businessmen paid bribes for licenses. Lower-ranking police officers extorted bribes from prostitutes, instead turning a blind eye to the illegality of their business. Part of the means thus obtained were distributed among the highest police officials and political leaders. Many people understood that it was necessary to change the system, but no one wanted to take decisive action. It was a real corruption trap.

Changes have become possible as a result of the development of civil society. In the second quarter of the 19th century, a powerful Progressive movement emerged, uniting representatives of the middle class, small businessmen, farmers, specialists and some politicians. They proclaimed administrative reform, which would separate political activity and public service, as one of their main goals. Progressists understood that political parties could not create an effective administration, and sought to combine the administrative experience of the more authoritarian countries of Europe with the democratic ideals of America. They demanded that administrative services be guided by strict rules and that the appointment of officials to posts should be determined by their experience and qualifications. They insisted on centralizing, standardizing and simplifying administrative procedures in accordance with the principles of hierarchical management. Progressists have created a number of organizations, such as the New York Municipal Research Bureau, the New York Citizen's Union and the Milwaukee Free Press. In the end, they achieved leading positions in both the Republican and Democratic parties. At the beginning of the 20th century, Presidents Theodore Roosevelt and Woodrow Wilson carried out reforms in accordance with progressive ideas and built a new management system based on a system of independent commissions. As a result of these reforms, the country emerged from a corruption trap.

5. Systemic crisis.

In some cases, a systemic crisis contributes to a country's exit from an institutional trap. 7 A crisis radically changes the most important parameters and destroys the mechanisms that



support the trap, so that the economy may fall outside the “area of attraction” of an ineffective norm. As an illustration of this thesis, we consider the evolution of a barter trap in Russia. After the liberalization of prices in 1992, the process of demonetization of the economy began in Russia (Polterovich, 1993). Consumer prices rose 26 times in 1992, 10 times in 1993, by a factor of 3.2, in 1994. Under an unformed banking system, the transfer of money from an account to an account within Moscow could take two weeks, and an interregional transaction could take more than a month. With such a rapid inflation, it was sometimes cheaper to pay the courier a ticket for the transport of cash, rather than using cashless payments. For many firms, barter was less expensive than cash transactions. The transformational costs of the transition to barter were not too high due to the system of direct connections between suppliers and consumers, which was formed in Soviet times. Modern communications facilitated the search for suitable partners. The greater the number of firms transferred to barter, the easier it was to build a chain of suitable barter exchanges, and, accordingly, the lower the transaction costs per unit of exchanged product (coordination effect). This facilitated the transition to barter for other firms. Transaction costs of barter continued to decrease due to the effect of training: managers acquired the skill of drawing up barter chains. The newly established norm spawned a new institution of barter intermediaries (Kleiner, Makarov, 1996) and became a convenient tool for tax evasion (the conjugation effect). All this led to the rapid formation of a barter trap.

Simultaneously with barter, all large-scale acquiring defaults. Both phenomena were caused by a shortage of funds and were in close relationship with each other, a detailed analysis of which is beyond the scope of this article.

Trying to combat demonetization, the government introduced bills of exchange and tax exemptions. These measures only worsened the situation. In 1997, a government commission stated that only 10% of payments to the state budget were made in “real money” (Karpov, 1997).

By 1997, inflation in Russia had significantly decreased and the technology of cashless payments was significantly improved. However, the practice of barter exchanges continued to expand (Table 4, line 1). The hysteresis effect mentioned above was observed (see also Uribe, 1997). Barter was supported by mechanisms of coordination, training, conjugation and inertia. An agent who decided to leave the barter system would have to bear the serious costs associated with breaking long-term relationships, finding new partners, and relationships with the tax inspectorate. Barter

Intermediaries, not wanting to part with a source of income, sought to maintain and improve the system of exchange, which has become unprofitable for society. In 1998, more than half of all transactions in industry were carried out by barter.

The barter trap, which seemed indestructible, was destroyed as a result of the 1998 financial crisis. The reasons for the sharp decrease in the share of barter exchanges are not completely clear and deserve further study. In order to formulate an appropriate hypothesis, it is necessary to pay attention to those parameters that have changed dramatically as a result of the crisis.

First of all, there was an almost double depreciation of the ruble in real terms (see line 2 of Table 4). Imports fell sharply: in 1999 its volume was 56% of the 1997 level. Exports decreased in a much smaller proportion due to rising oil prices. Real wages fell significantly, but the drop in real consumption was not so great (see row 5 of Table 4).

As a result of a decline in the real exchange rate, a decrease in exports and a reduction in real labor costs, the demand for domestic goods increased and economic growth began. The crisis has completely destroyed the market for government short-term bonds, diverting money from production targets (line 3). The balances of enterprises' accounts increased (line 7), they began to invest in production (line 11). All these changes have led to a sharp decline.

Table 4. SHARE OF BARTER IN THE SALES OF INDUSTRIAL ENTERPRISES (%) AND SOME OTHER INDICATORS

18

1992

1993

1994

1995

1996

1997

1998

1999

2000

2001

1. The share of barter, %

6

9

17

22

35

42

51

40

25

sixteen

2. Relative real exchange rate \*, 1992 = 1.0

1.0

0.32

0.28

0.17

0.16

0.15

0.29

0.28

0.24

0.22

3. The ratio of the cost of sold GKOKVVP%

0.1

2.9

10.4

20

20.3

9.4

3.6

0.0

0.7

4. The real wage rate

100

106

111

96.6

75.3

91.1

109.3

5. Change in personal consumption, %

97.4

96.2

104.1

98.0

96.4

108.1

107.5

6. M2 / GDP, %

19.4

16.0

14.3

13.8

15.5

16.4

14.8

15.6

17.7

7. The ratio of balances in the prom. forerunners to the cost of prom. products, %

1.3

1.0

1.3

2.16

2.4

1.97

2.3

8. The change in the volume of prom. production %

97

95

102

95

111

112

105

9. Imports, \$ billion

62.6

68.1

72.0

58.0

39.5

44.8

53.8

10. Export,

82.9

90.6

89.0

74.8

75.7

105.6

103.2

11. Change of capital investments in prom.,%

90

83

98

81

113

118

112

\* Inflation in the USA is not included ..

Sources: The Russian Economic Barometer (2002), p.47. Russian statistical

Yearbook (1998), pp. 14, 15. Russian Statistical Yearbook (2002), pp.368, 37, 38,547, 614.

Russian Industry, 2000, pp. 365, 111, 21; 2002, p. 377, 126.18, 112

transaction costs of monetary exchange. The share of barter exchanges in the volume of sales of industrial enterprises began to plummet from 51% in 1998 to 16% in 2001.. In 2003, it was already less than 10%. The barter trap disappeared along with an extensive barter intermediary system. The crisis did something that was beyond the power of the government.

6. Conclusion.

Institutional traps are or have been a serious obstacle to the economic development of many countries. Some of them managed to find a way to effective equilibrium relatively quickly, others were forced to look for it for a long time. Some continue to search so far.

The main reason for institutional traps is lack of coordination. In economic theory, two main mechanisms of economic coordination are studied.

behaviors - market and government policy. If the market fails, the government may try to prevent institutional traps from forming or facilitate exit from them, improving reputation mechanisms, using amnesty, improving administration practices and choosing appropriate macroeconomic policies. In a number of cases, however, neither market interactions nor government measures provide the desired effect. The introduction of political democracy does not solve the problem either. To improve the coordination of economic agents, it is necessary to improve the institutions of civil society. Awareness of this fact should accelerate the already begun integration of civic culture research and the theory of economic development.

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1 The initial version of the work was carried out as part of the research program of the New Economic School in 1999. This substantially revised version was reported at the Pushchino seminar in 2003 (see Polterovich, 2003).

2 In the western literature, the term "lock-in" is used (Arthur, 1988, North, 1990).

3 Calculating transaction and transformation costs is not an easy task. In addition, the described decision rule implies a given discount rate and "planning horizon". It is doubtful that agents performed such costing explicitly. However, it seems highly likely that they are actually oriented towards (intuitive) cost comparisons. Of course, this hypothesis needs careful empirical verification.

4 Recall that rent-oriented behavior was originally understood as behavior aimed at gaining a monopoly position in the market for goods or services. Currently, this concept is used in a broad sense to denote behavior associated with the violation of existing or, on the contrary, the creation of additional institutional constraints to extract additional income. Corruption, shadow activity, lobbying are referred to as rent-oriented behavior.

5 In the 1989 VTsIOM survey, 42% of respondents indicated that they have "many close reliable friends". In 1999, only 13% of respondents chose this answer. At the same time, 74% said that they can fully trust only two or three people. (Levada, 2000, p. 26). The relationship between civic culture and reforms in Russia was studied in the works of Polterovich, 2000b, Polterovich, 2002.

6 The presentation is based on the monograph Nota and Miller (Knott and Miller, 1987). See also Polterovich, 2001.

7 The idea that systemic crises can be useful for institutional development has been put forward and explored in a number of papers (see Drazen, Grilli, 1993).