

# **EKONOMIKA**



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## WHEN THE STATE IS SHIRKING: INFORMAL SOLUTIONS FOR SOCIAL SERVICES PROVISION IN ALTAI VILLAGES<sup>1 2</sup>

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**Keywords:** rural Russia, Altai Krai, gift, rural communities, informal economy, social sector, rural policy.

**ABSTRACT:** The article contributes to the discussion on the informal economic activity in post-socialist countries. Quite often this activity is related to state regulation. We provide evidence from rural Russia suggesting that state shirking also can give rise to informal economic relations. Empirical data from Altai Krai show that informal transfers from farms to rural municipalities are used to provide rural social sector. Despite the collapse of socialist agricultural system, when rural communities existed under patronage of collective farms, substantial part of the privately owned post-Soviet farms still donate to rural municipalities and population. The article is based on the fieldwork conducted in Altai Krai in 2013 when qualitative data (informal interviews, group discussions, observations) were collected by the author and his colleagues. Gift-giving relations between agricultural producers and municipalities could be described as “natural” bottom-up pattern. We perceive these Soviet-style gift-giving relations as the way to mitigate the weaknesses both of the Russian state rural policy as well as market self-regulation mechanism. Despite it could slow down economic performance of farms, it is the way to prevent rural degradation and depopulation.

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## 1. Introduction

While Russian agriculture demonstrates some signs of recovery after dramatic downfall in 1990-s, the living standards in rural areas are still very low. Moreover, rural social sector (water and gas supply, electricity, roads, medicine, education, retail stores, culture etc.) has declined in comparison with the late Soviet period due to the lack of investments.

There are two basic ways to provide social services: by state (as a public good) and by market (as a private good). In Russia the first way is predominant. But it appears that in many Russian rural areas there are no formal mechanisms (state or market) that are able to provide rural social infrastructure. In post-Soviet Russia municipal services came under full control and responsibility of local rural administrations. The key problem with that is simple and severe: the majority of local administrations don't have enough money to pay for their social objects. Thus, rural communities are put in the situation when the market is absent and the state is shirking. By rural communities here we mean a social system which includes civil society, municipalities, and business organizations.

What alternative mechanisms do rural communities activate in order to survive in this environment? In this article we focus on one of those mechanisms, namely, informal transfer of resources from a farm to a municipality in the form of a gift. To be more accurate, we should note that those transfers are not always informal, i.e. hidden from the state. Some of them are official, so the state even collects taxes from them. However, all transactions between farms and municipalities are based exclusively on farms' goodwill. Thus, the article is limited to the problem of rural community informal self-organization in the absence of state transfers as well as relevant market mechanisms. Therefore, we avoid the other aspects of corporate-municipal relations described here. For instance, corporate social responsibility perspective could be discussed (for overview see Garriga, Mele 2004). The other relevant perspective is a vast anthropological literature on gift economy pioneered by Malinowski (1922) and Mauss (1954) because relations between farms and municipalities in Russian countryside have much in common with this tradition.

We were doing our fieldwork in Altai Krai in spring and autumn of 2013. Here we use data from a single district of the region. Every case represents the specific set of economic and social circumstances that forge the nature and the particular features of gift-giving relations. We changed any names for the sake of anonymity. We also hid many details concerning our respondents, their farms and municipalities. The article is based on five cases: non-privatized state farm

(former sovkhoz), privatized sovkhoz, agroholding, privatized kolkhoz and family farmers. In some cases we'll provide the view from rural municipalities, i.e. the opposite side of gift-giving relations.

## **2. State Shirking in Providing Rural Social Infrastructure**

The role of the state in the economy is widely discussed in economic and sociological literature (an overview see in Block 1994; Block, Evans 2005; see also Bandelj, Sowers 2010; Evans et al 1985). This discourse has a lot of aspects including the notion of so-called 'weak state' (see, for instance, Acemoglu 2005). The weak state itself has several dimensions. The most extreme forms of a weak state are failed state, predatory state, and state capture (Evans 1995). One could argue that in the 1990-s the state capture by oligarchs occurred in Russia but today this argument is irrelevant anymore. The more moderate form of a weak state is the state replacement when the state loses control over certain economic realms and therefore is substituted by alternative regulative mechanisms, i.e. informal relations or criminal groups (Sicilian case see in Gambetta 1993; Russian case see in Volkov 2002). The strengthening of Russian state under Putin's regime led to the transformation of the criminal economy of the 1990-s which has largely dampened or moved into the state enforcement agencies (police, prosecution etc.). As for Russian rural sphere, we can see some elements of the weak state: the reign of local oligarchs (not everywhere), violating laws from time to time, though agriculture is not the tastiest morsel for criminal groups or oligarchs (Никулин 2010). Anyway, in rural areas Russian state can't be called 'weak' in all senses mentioned above, because it is keeping control and regulation there more or less successfully. The third and the least evident (and probably arguable) form of the weak state is the inability of the state to provide proper functioning of controlled areas. It means that the government is able to maintain its authority and to enforce the rule of law but is unable to provide sufficient resources for controlled territories and population. In this article we focus on the latter case because the majority of rural municipalities are struggling for survival in the situation when the state is able to regulate but fails to provide resources. Therefore, further we avoid the term 'weak state' and instead use the term 'shirking' in its usual meaning in institutional economics as a form of opportunistic behavior. Thus, by state *s h i r k i n g* we mean that a state fails to meet expectations (i.e. social contract) regarding its social policy.

In its own Constitution Russia is defined as a social state (or welfare state). As literature on welfare states shows, there are different types (and theories as well) of welfare state which intervene differently in the economy (Esping-Andersen

1990, 1994; Huber, Stephens 2005). However, generally this definition really affects Russian economic policy and national budget which includes heavy social burden and various social transfers. Nonetheless, rural areas traditionally receive insufficient finance, especially after the adoption of the new municipal reform (Federal Law No.131 adopted in 2003) which implies broad autonomy and mandates for municipalities without adequate financial resources. The majority of local taxes are transferred to the regional and federal levels and little goes to municipalities themselves.

### **3. Possible Options for Providing Rural Social Sector**

The financing of social infrastructure can be perceived from several perspectives. From the first perspective social sector is defined as a public good and therefore should be provided by the state. It is the lightest version of a state intervention in the economy according to Block's (1994) classification. As we stated above, it is the obligation of rural municipalities to provide social services but they don't have enough resources for that.

The second perspective suggests that social infrastructure should be provided by the market as any private good. In reality there is no market for social services in rural Russia. The majority of services are provided by municipalities as public goods; the rest of them are provided as private goods by natural monopolies (for instance, heating or home electricity).

The third perspective is a public-private partnership which is quite popular globally, though having its own pros and cons (Hodge, Greve 2007). This model could be the possible solution here but the state is shirking.

The fourth perspective is so-called 'quasi taxes' (Панеях 2008). This concept is somewhat close to the grabbing hand concept proposed by Frye and Shleifer (1997) but has substantial differences as well. Frye and Shleifer used grabbing hand argument to explain why Polish economy responded much better than Russian economy to the very similar packages of reforms, i.e. radical liberalization and mass privatization. Quasi taxes imply informal payments from business to municipalities, so one could perceive them as grabbing. However, unlike Frye and Shleifer's grabbing hand concept, the beneficiaries from quasi taxes are municipal budgets or organizations but not bureaucrats personally. Though this concept is quite adjusted to Russian state-business relations, it is not well suited to rural municipalities because, as we will show below, they appear to be the weaker side in relations with agricultural enterprises, so they can only ask but not claim.

#### **4. Solution from Below: Informal Transfers from a Farm**

In Russian countryside the following situation is quite widespread: a major agricultural enterprise in a rural settlement helps local community to fix its everyday problems. This aid could be huge or tiny, but in return an enterprise doesn't receive anything, so their help could be called a "gift", "sponsorship", "altruism" etc. Much of those donations are transferred informally, though some social services are formal and regulated by the state, i.e. heating. The central category here is goodwill of farms (implementation of this concept to Japanese economy see in Dore 1983).

Those gift-giving relations have a deeply rooted Soviet legacy that still affects the rural life in modern Russia. In Granovetter's (1985) term those economic relations are historically e m b e d d e d in rural society. It means that voluntary economic aid from farms to municipalities is embedded structurally (in networks and relations), institutionally, culturally and politically. Despite the demise of the Soviet Union and marketization of agriculture, paternalistic relations between the successors of former collective farms (so-called LFEs<sup>3</sup>) and rural communities still remain. Those relations contribute to the survival of the rural social sphere in a hostile environment of market relations and poor government policy.

Regardless of LFEs economic performance, rural social infrastructure declined greatly. Today it is supported both by backward and successful LFEs, though each of them established a different kind of relations with municipalities. Here we'll consider relatively successful LFEs, as their motivation is less evident and studied than the motivation of the farms in a survival mode (Линднер 2002; Никулин 2002).

In short, we found two major solutions for the social problems in Russian countryside: the first could be called state-led and the second is a bottom-up (grassroots, "natural") one<sup>4</sup>. We focus on the latter and provide evidence from Altai Krai. Our Altai data represent what could be called "natural" gift-giving relations. It means that those relations emerged from below, i.e. from interactions between agricultural producers and rural municipalities, without any intervention from the external factors including the state.

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<sup>3</sup> Large farm enterprises

<sup>4</sup> The example of the state-led solution is Belgorod Region where we conducted several studies. See, for instance (Фадеева 2012; Куракин 2012).

## 5. The First Case: State Farm in a New Environment

The first case describes relations between a state farm and respective municipality. The farm is a former sovkhos which avoided privatization. The rural municipality, like many others, hasn't enough money for maintaining social sphere.

Although a number of local entrepreneurs provide help to the municipal social sphere, the major sponsor is still the largest enterprise – the former sovkhos. This practice emerged in the Soviet collective agriculture but later it was transformed in many respects.

From the one hand, the farm's management understands that the municipal government has numerous problems that could be hardly solved on their own. From the other hand, the management realizes that the farm is unable to help the community as much as it did in the Soviet times. Besides, unlike the sovkhos, the farm now sponsors the municipality exclusively from its own profit.

LFE's managers are aware, that they are the stronger side when communicating with the municipality. The latter ask for help without giving anything in return. Thus, the farm's help could be called a gift or charity. However, it includes the element of obligation, because the management realizes that those gifts are their moral responsibility rather than a pure freewill act. As an agronomist put it:

- Is your help voluntary or obligatory? What do you think?
- Well, our workers live here, in this village, after all. So, we're doing our best.
- Ok. Does the municipality stimulate you somehow for your contribution to the communal sphere?
- How can they stimulate? They say “thank you” and that's all. Sometimes on a fest they officially thank us, say a kind word.

Now we'll consider the same relations from the recipient's side, as we managed to talk to the recently elected head of the municipality. Water supply issues are of primary importance for the local administration.

Our municipality should have at least four water wells, but last year the only one remained. Moreover, it operated in emergency mode. Thanks to the sovkhos (they donate us 400 thousand roubles) and district administration (they also provided some aid) that we managed to fix the problems.

Troubles with the municipal equipment happen very often. The head of the municipal administration told us that a month ago in one of the municipal settlements the only water well went out of order. The settlement lost its own



source of water for a week. The municipality got help from such organizations as fire service and EMERCOM which used their trucks to deliver drinking water to the people. Finally, the municipal administration found money for repairs.

So, the municipal administration lives in a situation of a constant hazard. The worn-out equipment responsible for municipal services can stop working at any time. The municipal administration should be always ready to react on those accidents. And they're trying indeed. They seek help from anyone who could help. Thus, the engagement of fire service and EMERCOM looks quite naturally in the given circumstances.

Apart from the major problem of water supply, the municipal administration faces everyday small problems. However, they should be solved as well, no matter how small they may be. And the budget limitation is so severe that it prevents municipal administration to solve problems on its own. And again the municipal head has to seek help from local business.

The school No.1 director had visited me right before you came. She said she needed a transport to take children for the district singing fest. And both municipal cars are unavailable. We don't have money. [...] No gasoline. So, she came... We have to take children somehow. So, I am going to ask sovkhoz or entrepreneurs for help.

The ability to donate for social needs depends on economic performance of local firms. The municipality head understands it very clear. Actually there is implicit, informally determined amount of resources that a firm spends for social purposes. Both sides of gift-giving relations understand this amount, or it's better to say, feel it. For instance, if the municipal head asks for a help that requires substantial resources, then he tries to lower his requests in future. Furthermore, he tries to split social burden among all local firms according to their facilities. In the interview the municipal head used the word "conscience" when he described the limits of donation to the municipality.

Thus, the relations between the farm and the municipality contain a complex mix of motives, calculations, bargaining and feelings. It couldn't be easily described with only one concept.

## **6. The Second Case: Joint Stock Company with a Soviet Tail**

Here we'll focus on the interview with the director of a privatized sovkhoz which was transformed into a closed joint stock company. According to the farm director, his enterprise provides heating, water and gas supply etc. to all three settlements which constitute the municipality. The farm provides heating for the

social organizations such as school, culture club, retail stores, and municipal administration office as well as for a part of private housing. This form of gift-giving relations was established in Soviet times when communal facilities were built. Today the joint stock company is keeping it in working condition.

The situation when the entire social sphere is kept by the enterprise is not usual for the district. The majority of agricultural organizations were happy to get rid of that burden when hard post-Soviet period began.

Communal services are unprofitable for the farm. For example, water supply has zero profit and heating brings losses. The main reason for that is old and inefficient equipment but the farm can't afford modernization. Besides, communal services are a non-core activity for the agricultural enterprise but it requires resources which otherwise could be used in agricultural production. The reason for that strange behavior is that the farm doesn't consider communal services as a business project.

We don't consider profit there to be our goal anyway. Villagers are our employees. There are no other enterprises here. So, we try to reduce prices for those services as much as possible.

Thus, this activity is unprofitable mainly because the farm itself doesn't want to make profit here. Moreover, the farm is ready to lower tariffs for communal services but the formal rules don't allow doing it.

- So, are you ready to sell it cheaper?
- We are ready, but we can't do it because tariffs have been already established. Otherwise tax inspection could say that we underpay taxes. Having less profit from this area we underpay taxes.

Tax reasons here outweigh welfare reasons and goodwill faces formal administrative regulation. So, the situation is paradoxical: being the key factor of the municipal welfare, the farm is not stimulated to increase its sponsorship activity but instead, the government creates obstacles for social responsibility.

What is the motivation of the farm whose behavior is opposite to the behavior of a monopoly? Here we see the opposition of business logic and the logic of social responsibility. Nevertheless, it would be wrong to consider it in terms of pure altruism.

If we consider it from the business point of view, then we have to admit that any production should be profitable. But from the other hand, we have to take into account that we live in countryside. Only a few people take this fact into account. Countryside is a bit different thing. First, we have to consider that here we deal

with people who have nowhere else to go. The second aspect is that we are the monopoly here though I am reluctant to use this term. Nobody else will do this here. If we stop this activity, it is highly unlikely that someone else will do it.

Aside from altruistic motivation we can see here the long-term calculation which takes into account the interdependence between the farm and the village. The other reason is that the shareholders are mostly local, so they understand the importance of social sphere maintenance and vote for donation. Dispersed ownership here helps to find a balance between profit making and social duties.

### **7. The Third Case: Taming of an Agroholding**

The third case shows the situation when ownership is consolidated. In a village here the core enterprise is a sugar plant. The plant was privatized in the course of market reforms and initially the shares were dispersed among the workers. Recently the shares were bought up by a Moscow agroholding and a new director was appointed.

A. Nikulin uses the term “oligarkhoz” for gigantic private agrarian enterprises (Никулин 2010). Many post-Soviet collective farms which Nikulin calls “post-kolkhoz” were incorporated in emerging agroholdings which were often established by non-agricultural capital of any sort. Sometimes that capital has oligarchic nature. In his article Nikulin argues that one of the crucial weaknesses of those oligarkhozes is the lack of embeddedness in the life of rural communities that could lead to negative economic outcomes for oligarkhoz itself. Along with land and property an oligarch “purchases” the problems of local community. Ignoring of those problems inevitably leads to social sphere collapse.

In comparison to the Soviet period the village went into decline. Nevertheless, its economy is developing; its major enterprises are in quite good shape. So, we face here a puzzling process: economic development is going hand in hand with social decline.

Furthermore, decline in social infrastructure was reinforced by the change of owner at the sugar plant. The ownership concentration was really coercive as the plant was intentionally put on the brink of bankruptcy in order to force workers to sell their shares to the agroholding. That change of owner negatively affected the intensity of social donations, especially when a new director was appointed. The municipal deputy head described this situation as follows.

- Life became worse. Previously everything depended on those enterprises: sugar plant and poultry farm. We felt great. The turning point came about three years ago. [...]
- Do they have the other head now?

- Yes, now they have another head, a young man. He holds the position for three years.
- Are they all strangers? The former as well as the present.
- The former is from our village. The present is a stranger. His wife is from here: she was born and grew up here, got education, and returned to the plant with a husband. At first he was a technician, then a foreman, a supervisor, a chief engineer, a deputy director, and at last he was appointed on a director position. Another approach. A young man.

Here we can see the combination of organizational and personal factors. The most dangerous combination for a rural community is an external owner plus a stranger manager. However, it appeared that the situation was not as dramatic as it was described by the municipal official. Indeed, the social sphere in the village is not in a good shape, but we didn't see any collapse (worse than in other villages nearby). It turned out that even the new director didn't completely ignore the needs of the municipality.

Like in the first case, we managed to interview the other side of gift-giving relations: the new director of the sugar plant. Indeed, he appeared to be a person who tried to resemble a businessman (or his view of a real businessman) in his management style, speech and manners. But despite all his efforts, he better resembles an old style Russian landlord than a modern western businessman.

However, his motivation turned out to be more complex than the municipal deputy head described. He is apparently bound to the village and considers it to be his home. Indeed, he lives there for a long time, he made his career on the plant, and his wife was born there. He tried to hide his feelings in the interview but he didn't manage to do it.

From the other hand, his possibilities for donations are limited by his Moscow bosses. He is accountable for expenses, and we suppose that the agroholding has a quite strict financial discipline. That is the reason why in the interview he complained that he couldn't donate more to the village.

Thus, even when a monopolistic predatory capitalist captures a LFE, the opportunities for social partnership still remain. Our data confirm the statement by Nikulin that newly emerging agroholdings (oligarkhozes in his term) have to deal with rural social sphere.

## **8. The Fourth Case: Selfish Family Farmers?**

Russian family farmers are usually perceived as very individualistic, egoistic and avoiding any forms of cooperation. Moreover, they have fewer resources and are more vulnerable and fragile than LFEs. So, farmers are expected to cut any additional expenses, including social donations. But actually that's not true.

Like LFEs, family farmers have to adjust to the rural environment. The attitude of the rural community to individual entrepreneurs is a very important factor of success in business (Фадеева 2003). According to Fadeeva, rural dwellers begin to realize that they depend on farmer's prosperity, especially when a former collective farm in their village went bankrupt. Farmers, from their side, understand that they should carry a part of the social burden of failed LFEs in order to avoid problems in their own business. From time to time they have to make unprofitable actions.

Our findings confirm conclusions made by Fadeeva. Despite economic problems and endless struggle for survival, farmers donate to rural communities. Local administrations regularly ask for their help and they try to contribute. "Because nobody lives in a countryside anymore", the farmers used to say in our group discussion. By "nobody" they mean those who can help, i.e. LFEs or family farmers. The farmers' argument explaining their behavior is very widespread in countryside. "This is our native village", the farmers say.

The other aspect of farmer's social behavior is their relations to land owners (households that received land shares through privatization of collective farms) who lease their land to farmers. The latter cultivate household plots; provide families with forage, straw, transport, and agricultural machines for free. Thus, they support household rural economy. These relations also have social nature, though farmers are economically interested in keeping land shares.

The majority of family farmers are not able to provide aid of the same size as LFEs could afford. They are simply smaller and vulnerable to market fluctuations. However, like LFEs, they can't avoid social donations. Thus, here we face the limits of the proverbial egoism of the farmers.

## **9. The Fifth Case: Cooperative in a Trap of Informality**

The last case deals with a so-called agricultural production cooperative (SPK in Russian abbreviation). It was established in 2000 and is a successor of a kolkhoz. Being a cooperative, the farm is predisposed to take into account the interests of local rural dwellers, since they are the members of the cooperative. So, here we can expect a natural intersection of the community's and the enterprise's interests. The interview with the cooperative's chairman and ordinary members confirmed our expectations.

This case is interesting for us because it shows how regional authorities and formal rules could undermine gift-giving relations and become an obstacle for the goodwill of local agricultural producers. It appeared that among other social donations the cooperative was heating the local administration office, culture

club and school for its own expenses. The farm was doing it for 12 years but recently the cooperative was forbidden to do it anymore until some formal procedures are done. The chairman put it as follows:

Look at our federal laws today. We are likely to freeze our school and club. This year the new federal law was adopted. This year our license for their exploitation expired. Now we have to submit the certain documentation for club, school, administration office and all heated buildings in order to renew the license. We have to establish the ownership rights. In fact, the previous chairman built all that; without any formal architectural plans, without anything. And now we need to pay enormous money for legalization. Because of one foolish piece of paper, for license renewal, we should throw away a lot of money which could go to our people.

The chairman is really confused by that absurd. He thought that the farm was doing right things but their goodwill faces strange claims. Maybe, the claims themselves are not so absurd, but nobody wants to help the farm: bureaucratic machine is not interested in their support at all. The chairman complains:

In the majority of villages the entire social sphere was transferred to rural administrations. Now they pay for it. And nobody pays us; we heat the school and the club and nobody has ever paid us even a penny. Moreover, they claim for money and say, "otherwise we won't allow you to heat".

## **10. Conclusion: A New Life of Old Institutions**

So, rural communities (including civil society, municipalities and farms) in Altai Krai are trying to save their social sector from collapse. None of possible options for providing social services is available for rural communities. Therefore, they adjusted the traditional Soviet norm of collective farm patronage to the very different environment. Of course, that norm couldn't be raised up entirely. Nevertheless, 'the light version' of it is actively used. This 'light version' implies the informal character of patronage. We have described various forms of both formal and informal corporate-municipal relations which aim to provide rural social services in the absence of state support as well as market mechanisms.

According to Portes (1994, 2005), informal economy is extremely dependent on social ties. In other words, informal economy performs effectively only if it rests on a social capital (the classic readings on social capital see in Bourdieu 2001, Putnam 1995, Coleman 1988). The other lesson from Portes is that if a state fails to meet the needs of communities (state shirking in our case)

it provokes the intensification of informal activities. But the capacity for informal relations is itself strongly dependent on the level of social capital. The problem with Russian countryside is that it lacks social capital and therefore lacks self-organization capacity (O'Brien et al 2005)<sup>5</sup>. Indeed, rural social movements in Russia are absolutely undeveloped and bizarre (Mamonova, Visser 2014). In our cases the solution was found in the Soviet tradition of farm-community relations when collective farms provided all social services. This legacy is activated when nothing else could provide proper solution to the problem. Those historically institutionalized patterns have been literally revived and are used in the new environment. It is not the social capital but former institutions that promote informal relations between farms and municipalities.

As early as 1996 Stark (1996) argued that in transition economies institutional reforms use recombination rather than replacement, i.e. the existing institutions are used in the course of transition from plan to market. Russia is no longer a transitional economy as a quite consistent form of autocratic state capitalism emerged. Nevertheless, institutions evolve at a different speed. Rural Russia is still strongly affected by the Soviet legacy and we have shown those institutions in action at the micro-level.

Two paradoxes arise here. First, state shirking provokes rural communities to adopt 'obsolete' Soviet practices from a planned, state-centered economic model. Second, many scholars argue that state control unintentionally gives rise to the informal economy (see, for instance, De Soto 2002). But we show that sometimes state shirking (and not only weak state) can create informal activity as well.

Finally, a hazard of the market should be highlighted. Transition process, i.e. the transformation of socially-oriented collective farms to market-oriented private farms implies radical replacement of Soviet-style relations. We showed that despite market reforms local agricultural producers are still keeping rural communities under their patronage. This practice has its pros and cons. From the one hand, it dampens economic development of a farm by taking its resources away from doing business. From the other hand, maybe it is the last resort to keep countryside alive in the absence of state support. In this respect we consider the 'obsolete' Soviet tradition as the way (quite imperfect, indeed) to mitigate the weaknesses of both state policy and market self-regulation mechanism.

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<sup>5</sup> The informal activity of individual households increased during shock market reforms but the social capital of rural communities which could promote collective action is still quite low.



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