

# Rules for Followers: Institutional Theory and the New Politics of Economic Backwardness in Russia

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*I investigate contemporary Russia's real, but shallow success in implementing two borrowed capitalist institutions—a monetary system and the joint-stock company. Even though money and shares of stock in Russia are exchanged in voluntary transactions, they fail to play the legal roles ordinarily expected of them, resulting in weak corporate governance and nonmonetary (barter) exchange. Via a criticism of game-theoretic approaches to institutions in the New Institutional Economics, I argue that the roots of this shallow marketization lie in the distinct social foundations of the transactional and legal roles of money and corporate stock. Arguments drawn from sociological institutionalism then illuminate why Russia displays this limited isomorphism to authoritative international models of market institutions. The article concludes by discussing implications for a third body of institutional theory, historical institutionalism, and the possible broader relevance of the pattern of shallow marketization in contemporary relatively backward countries.*

Relative backwardness, a notion once fundamental to the enterprise of comparative political economy, is little theorized of late.<sup>1</sup> Though the roots of this neglect lie in part in changing theoretical fashions, real-world trends doubtless

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also play a role. Gerschenkron's famous argument on developmental trajectories investigated how relatively backward countries borrowed production technology from early developers.<sup>2</sup> Later contributions retained this emphasis, while stressing that the political and economic effects of borrowed production technology cannot be separated from the commercial context in which it is operated.<sup>3</sup> Today, however, policy advice and academic analysis concerning relatively backward countries most often focus not on production technologies, but on *transaction* technologies, such as institutions that sustain private trade and investments, organize corporate governance, or create liquid markets in securities and financial derivatives. The borrowing of transaction technologies will clearly require a different analysis than that applied to production technology. Production technology's relative independence from social relations and social development was a critical aspect of the traditional analysis of economic backwardness. Veblen even argued that the social environments that gave birth to new forms of production technology were unlikely to put them to most efficient use, due to habits and customs hindering the reorganizations needed to take maximum advantage of technological possibilities.<sup>4</sup> Transaction technologies, by contrast, cannot be independent of social relations: they are forms of organizing social relations.

Since transaction technologies are generally theorized as kinds of institutions, it may be that relative backwardness has faded from the analytical agenda because the topic has been subsumed under the broader heading of institutional theory.<sup>5</sup> Such an assimilation, it is one purpose of this article to argue, is misleading. Relative backwardness does decisively influence the political and administrative concomitants of institutional creation. Very roughly speaking, in "early developers" transaction-sustaining institutions were created in a decentralized fashion by private agents, though such institutions were often subsequently extended, rationalized, and incorporated into law by states making good their claims to sovereignty. When exported to "late developers," therefore, transaction-sustaining institutions tend to take the form of proposed legislation modeled on that extant in other national contexts.<sup>6</sup> In other words, *transferred transaction technologies come bundled with presumptions about the effectiveness of state sovereignty and the nature of legal order*, issues substantially irrelevant to the appropriation of production technology.<sup>7</sup> The interactions and tensions between state attempts to provide rationalized forms facilitating voluntary economic transactions while allowing taxation and regulation, on one hand, and exchanging agents' own efforts to give their transactions predictability and civility, on the other, are everywhere critical to social and economic change.<sup>8</sup> Yet the relation between state- and society-provided transaction technologies is likely to be marked by greater tension and conflict when states adopt rationalized forms from other social contexts and claim for them an exclusive legal status.

This article seeks to contribute to an analysis of the international transmission of transaction technologies through a case study of Russia's recent experience in

appropriating two key institutions of capitalism: money and the corporate form of ownership. Both these institutions create potentially alienable claims (to unspecified goods or services in the case of money, or to a specified role in governing the generation and division of corporate revenue in the case of stock). Thus both operate on two levels, which may be termed the transactional and the juridical. The transactional level involves merely sale and purchase of interchangeable claims, creating prices for them, thereby enabling commercial strategizing and speculation, as well as purely tacit coordination among interchangeable individuals seeking to profit by judging what others expect price movements to be. The exchanges involved here usually transfer legal ownership but may or may not be primarily dependent on legal guarantees; alternatives are available. The juridical level, by contrast, involves action for which the legal implications are *constitutive*. Examples are stockholders' participation in corporate governance in the authorized manner, or the use of money to settle a legally defined obligation denominated in monetary units. Coordination on the juridical level, when it occurs, is always an explicit process among specific legal entities acting according to rules that must be consciously applied to a concrete situation. The distinction between transactional and juridical levels of institutional operation corresponds to the classical contrast between money's medium of exchange function and its means of payment function; one could similarly distinguish shares of stock as object of speculation from shares of stock as guarantees of participation in corporate governance.

My empirical thesis can then be formulated as follows: Russia's efforts to become integrated into the international economy on the basis of the rationalized institutional forms generally considered legitimate by powerful actors in that economy (and the parallel efforts of these actors to bring Russia into the international economy on their terms) have had real, but shallow success; they have created market institutions that function like their international models on the transactional level, but not on the juridical level. In other words, stock in many corporations can be reliably bought and sold, but does not reliably guarantee participation in corporate governance. The ruble is widely desired and employed as medium of exchange, but many legally defined obligations are settled using alternative means of payment neither issued nor effectively regulated by the state.

My explanatory thesis traces this pattern of shallow marketization to the very different character of state-society interactions involved in the transactional and juridical functioning of these institutions. On the transactional level, it turns out to matter little to the effectiveness of state policy whether or not institutions take the form of rationalizations of preexisting social practice. The pursuit of universality and regularity in the juridical functioning of corporate stock and money, however, brings the state into a much deeper encounter with existing patterns of social interaction. The powerful international actors seeking to foster Russia's adoption of established models of market institutions have demonstrated a systematic inability

ity to perceive the distinct social foundations of these two levels of institutional operation, meaning their efforts have met with success only on the transactional level.

In what follows, I seek to specify just what distinguishes the transactional from the juridical aspects of institutions, and how this distinction relates to Russia's shallow marketization and the character of relative backwardness at the end of the twentieth century. The argument proceeds by examining, in turn, three existing bodies of theory on institutions.<sup>9</sup> The first section treats the New Institutional Economics, the body of theory that has most systematically investigated transaction technologies, focusing in particular on game-theoretic formulations of this approach. The way that game theorists understand the rules underpinning institutions, I argue, imposes on them certain *sociological* assumptions in consequence of the *logical* prerequisites for application of the game-theoretic method. One must therefore inquire into when these sociological assumptions are likely to hold and when they will not. As it happens, a game-theoretic understanding of institutions is appropriate for the transactional functioning of the two institutions that interest us, but not for their juridical functioning. Evidence for this claim is presented in the second section, which presents case studies of corporate ownership and money in Russia. There the pressures exerted by donor agencies and international financial bodies on Russia to conform to authoritative models of market institutions are examined through the lens of sociological institutionalism, which theorizes the forces that induce formal organizations (including nation-states and corporations) to resemble one another. I argue that an implicit game-theoretic approach to market institutions on the part of powerful world actors has frustrated their efforts to shape Russian institutions, leading to the pattern of shallow marketization described above. The concluding section suggests some implications for a third variety of institutional theory, historical institutionalism, while drawing lessons from Russia's experience for the analysis of the character of relative backwardness at the end of the twentieth century.

#### NEW INSTITUTIONAL ECONOMICS: BROKEN RULES

The New Institutional Economics (NIE) has helped to popularize the argument that the reliable functioning of markets depends on institutions, whose significance lies above all in their reduction of the costs of transacting. Douglass North, the NIE's leading light, has defined institutions as "the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction. . . . They structure incentives in human exchange, whether political, social or economic."<sup>10</sup> The references to "rules of the game" and "structured incentives" certainly reflect the long-standing engagement between institutional economics and game theory. Yet this engagement is fraught with analytical perils too rarely recognized. The assumption that "humanly devised constraints" can find a *ready* translation into game-theoretic terms can easily amount to the assumption that

social actors are atomized and homogenous. In certain circumstances—to be explored shortly—such a vision of society is analytically appropriate. In other circumstances, it is not, leading to unpleasant analytical consequences. As it happens, the distinction between favorable and unfavorable social circumstances for the application of game theory to institutional analysis overlaps with the distinction between the transactional and juridical functions of corporate stock and money. This, however, is a point that can only be appreciated after a closer investigation of how game theorists have sought to understand institutions.

Consistent game-theoretic formulations of institutional theory regard institutions as mechanisms sustaining one of multiple possible equilibria in some “underlying game,” play of which is repeated.<sup>11</sup> (When a game is played repeatedly, the individual “rounds” of the game are referred to as the “stage game,” and I will occasionally make use of this language.) For example, Milgrom, North, and Weingast analyze medieval trade fairs in this vein.<sup>12</sup> They model each individual exchange as a prisoner’s dilemma game, in which each player has the choice of cooperating or deceiving. Cooperation allows capture of the gains from trade, but these are outweighed by the ill-gotten gains of cheating a trusting partner. Repeated play and the commercial benefits of a reputation for fair dealing will do something to overcome distrust, but are unlikely to work in the case of long-distance trade with unfamiliar persons. Trade fairs solved this problem by banning those engaging in deception from further participation in the fair. In the model, this third-party enforcement appears as a superstructure appended to the basic prisoner’s dilemma game. When a merchant deceives a partner, the central enforcement agent instructs all other merchants to cheat the violator in future interactions.

Of course, this image of honest merchants pretending to enter into new trades with violators in order to punish them through deceit is rather distant from the actual practice described by the authors, which involved simply refusing to have further dealings with violators.<sup>13</sup> The disconnect between practice and the model illustrates a deep problem with conceiving institutions as mechanisms sustaining equilibria in an underlying game, since this approach commits analysts to the permanency of the underlying game, and to the notion that its rules and participants are beyond human control.<sup>14</sup> In the game-theory approach, institutions involve humanly devised rules—in this example, do not deceive your trading partners, unless they have themselves been deceitful. These, though, are superstructures on eternal Rules of the underlying game specifying an exhaustive set of possible behaviors—here, deceive or do not deceive—and their consequences. In what follows, adapting a distinction introduced by Philip Mirowski, I will refer to humanly devised rules as *h-rules*, whereas the Rules forming part of the specification of a game theorist’s model will be referred to as *g-rules*.<sup>15</sup> In a repeated game defined by *g-rules*, an *h-rule* can be understood as a stipulation to play a particular move in the stage game, with a threat of punishment if the stipulation is violated.

It is worth expanding on the differences between h-rules and g-rules, because the analytic consequences of assuming that h-rules can easily be expressed in terms of g-rules are substantial. First, as Bourdieu has sensibly pointed out, formal h-rules are frequently selectively implemented to service tactical aims, and ignored when inconvenient.<sup>16</sup> The use of “work-to-rule” strikes to exert pressure on employers during labor negotiations succinctly conveys this point. Following Polanyi and Granovetter, one might refer to this as the potential “embeddedness” of rules in social contexts regulated by other principles; in these contexts, formally valid h-rules are just one among other resources of struggle and cooperation that may or may not be employed.<sup>17</sup> Second, h-rules are nonexhaustive. They do not specify a full and complete set of possible actions, and human creativity may always create situations drafters of rules did not envision.<sup>18</sup> Some actions not envisioned by a rule’s designers may even be presented as compatible with it, raising difficult problems of interpretation.<sup>19</sup> Third, h-rules are violable (again unlike g-rules which specify an exhaustive set of choices in a game), and thus must be “consciously policed.”<sup>20</sup> Therefore, though phrased abstractly, they never deal with abstract individuals. When policing is done, it is always directed at specific persons; they are no longer potential violators, but actual ones.

The last point is of especial significance—for downplaying the fact that h-rule enforcement involves *particular* reactions to *particular* actions already in the past turns out to have remarkably radical implications for one’s vision of social structure. Game theorists work from the deceptively simple premise that actors’ expectations govern their adherence to rules. In the example given above, traders play a prisoners’ dilemma game with randomly selected partners, and those who choose to be deceptive can find themselves “punished” in future rounds by trading partners who seek to deceive them. To figure out whether or not traders will toe the line, one assumes that looking forward, agents weigh the costs and probability of punishment against the benefits of duplicity. Surprisingly, this focus on expectations involves a collateral assumption of a substantial degree of social homogeneity and standardization. For the claim that individuals base their decisions about whether to obey h-rules on their expectations implies that individuals view themselves as members of an *abstract* category of persons subject to a rule. This is so because individuals judging the consequences of a future violation of a rule are unable to know all the circumstances in which enforcement will be carried out. Potential violators’ considerations are thus imbued with a degree of abstraction that is not present once a violation has already occurred. Only *after* a violation does it become clear which specific social resources may offer opportunities to evade enforcement of rules. Such resources might include everything from the (culturally appropriate) conviviality needed to brighten a bored police officer’s day, to direct family ties with enforcement agents, to the wealth needed for hiring expensive lawyers. In the aggregate, these social resources amount to social structure. Since game theory’s full specification of possible moves and their consequences obscures the asymmetry between applying rules to abstract potential acts

and concrete completed acts, it likewise obscures social structure. Thus, the assumption that h-rules have an adequate definition in terms of g-rules can easily become the assumption that the society formally subject to some h-rule is composed of homogenous, equal, and atomized agents, who are judged by their acts alone.

There are techniques within game theory to limit the degree to which the logical requirements of prediction are allowed to slide into these very demanding sociological assertions. But these techniques also rely on restrictive assumptions and do not significantly undermine the case that defining h-rules in terms of g-rules begs critical questions about social structure. A game theorist would likely try to classify the specific possibilities to evade enforcement that occur after rule violations into those that are random and those that have systematic social causes. Consider the case of laws against jaywalking, a typical “nuisance crime” that some American police departments enforce only against persons otherwise considered social undesirables. When “solid citizens” observe a homeless person being arrested for jaywalking, they do not start to mind the crosswalk. (In general, it seems, the rich, powerful, and well connected may believe they can get away with behavior for which the poor, weak, and socially isolated are reliably and demonstratively punished.) Models could divide players in the jaywalking game into solid citizens and homeless people, and specify different payoffs to enforcement agents for punishment of each category. Yet it is obvious that efforts at precision in this vein could quickly evolve into an entire sociology, *which would have to be accomplished prior to specification of the model and without the tools of game theory*. Worse, if this sociological investigation were carried out in service of an eventual attempt to model enforcement of the h-rule in question, it might well be crippled by the need to produce a fairly simple scheme of social classification. In terms of this social classification, any concrete violation of an h-rule would have an abstract expression: a violation by a player of type x, which completely determines enforcement save for random factors (which again might differ across types of players, but not within them). In other words, if models are to be tractable they must delineate a relatively limited number of categories of players and assume that enforcement agents treat all members of any given category *equally*.<sup>21</sup> This assumption should not be written off as an inevitable and basically neutral simplification of the sort that any strategy of explanation involves. Universalism and impersonalism in the application of rules, it bears recalling, were once regarded in comparative politics as rather rare historical phenomena that demanded focused empirical study.<sup>22</sup> When h-rules are modeled as an equilibrium in a game defined by g-rules, such investigations are assumed to be unnecessary or trivial. Social topographies produced by those whose eventual ambition is to craft game-theoretic models of h-rules will be excessively flat.

Given that h-rules are embeddable, nonexhaustive, and consciously enforced against particular persons, Mirowski is correct to conclude, emphatically, that

g-rules can at best only be used as a kind of formalism to “describe” h-rules.<sup>23</sup> Even this must be qualified, however. In many cases, the assumption that there are universal g-rules in terms of which a given h-rule can be defined may involve such a radical abstraction from social reality that it would be best simply to decide that no tractable model can even approximately describe operation of the h-rule in all the cases to which it formally applies. Laws, and other humanly devised rules, can simply be inserted into too many “relational settings.”<sup>24</sup> Some jaywalkers are making a move in a game of “chicken” with the drivers, others are playing hide-and-seek with the cops. There is no single game in which “obey the jaywalking law” is a move. *Perhaps* the same is not true of American bankruptcy law, but if so then this is a victory of liberal universalism in enforcement, not an automatic by-product of the passage of the law.

The foregoing arguments do not imply a blanket assertion that game theory is never relevant to human affairs. The point is to specify the bounds of game theory’s empirical applicability—circumstances where persons’ choices are exhaustively specified, and enforcement is automatically and impersonally applied to abstract individuals, not concrete ones who may have strings to pull in the context of some other game. Mirowski argues that situations well characterized by g-rules tend to have some natural component: “A good example of this type of situation is provided by prisoner’s dilemma games describing the overgrazing of a commons or the depletion of a fish species. Insofar as the ‘payoff’ is well defined and not socially defined (i.e., fish caught or animal fed), and the players are fairly homogeneous, Nash equilibria can explain certain regularities in behavior.”<sup>25</sup> One should also add that given that specification depends on some constancy of players,<sup>26</sup> there should also be limited ability to control participants in the interaction (if the deceitful traders can be barred from the fair, they’re no longer in the game). Thus it seems that a game-theory metaphor may be especially effective in circumstances of *tacit coordination* among large numbers of individuals who have to view the future action of the group as dependent on multiple decisions not explicitly coordinated. There may be many relevant instances, including the “tragedy of the commons” circumstances of the sort mentioned by Mirowski, but they are not all connected to natural phenomena. Exhaustive options and limited ability to control participants is also a good description of the situation confronting, say, currency speculators making bets on the actions of their colleagues, or the unfortunate theatergoers deliberating what to do after the cry of “fire,” about whom one is always hearing.<sup>27</sup>

In terms of these two examples we may ask a critical question: what historical processes structured the currency market in such a way that the situation of the theatergoers became a good analogy?<sup>28</sup> In the theater example, everyone wants to get out the door at once, and they get in each other’s way. Theatergoers share an abstract characteristic—volume—which, when related to the dimensions of the door, governs how many of them can leave at a time. Without this shared feature, the process would be entirely different; ghost spectators without volume could zip



out of the theater all at once, indifferent to the stampede (of course, they would probably be less distressed by the prospect of a fire as well). Volume is a physical given that all humans share, but the relevant shared features of participants in most situations social scientists are interested in do not derive from nature. Consider just one step involved in applying the burning theater metaphor to the currency market: mapping the spectators' volume onto the amounts of money held by speculators. That units of money in different hands (not to mention in different forms such as cash and bank deposits) have the same practical commensurability as theatergoers' physical volume is the result of remarkable sociological processes, not a natural given.<sup>29</sup> More generally, processes of tacit coordination between multiple individuals driven by mutual guesses about expectations depend on some facts about these individuals previously having been rendered commensurable (or, equivalently, interchangeable) for particular purposes.<sup>30</sup> Beyond specifying the analog of volume, the mapping of the theater metaphor would also involve explaining how the "theater" was built, how the "audience" was collected, and so on. *Thus even in cases where a game-theoretic conception of institutions resonates with actual practice, one cannot just start from an "underlying" set of g-rules. One needs an analysis of how the sociological preconditions of such situations come about.*

Although it was written well before the emergence of game theory, such an analysis is substantially achieved in Georg Simmel's *Philosophy of Money*.<sup>31</sup> Simmel's main theme might be termed the social construction of interchangeability. He investigates how it is that processes of social evolution, and at times deliberate institution building, make it possible for objects and persons to serve as perfect substitutes for one another.<sup>32</sup> The study of money is at the core of this discussion, for, as Simmel notes, "Money is not only the absolutely interchangeable object, each quantity of which can be replaced without distinction by any other; it is, so to speak, interchangeability personified."<sup>33</sup> Interchangeability also lies at the foundation of many other institutions of the modern market economy, which in this respect mimic money. Simmel's discussion of medieval and more modern trade institutions is especially revealing. He discusses how the standardization of commodities traded on commodity exchanges eliminates what now would be termed problems of asymmetric information and high measurement costs that arise when purchasers must engage in "a careful and expert examination" of offered goods, or rely on samples. He concludes that standardization "lightens the burden of responsibility for both parties but transposes the subjective basis of the transaction into an objective one and alleviates the disadvantage of one party at the expense of the other."<sup>34</sup> "Credit transactions," Simmel continues, "exhibit an exact parallel to this," and then turns to the period considered by Milgrom, North, and Weingast:

In the Middle Ages it was very difficult to ascertain the credit-worthiness of an individual businessman, a difficulty that impaired and hampered both his actions and those of

the creditors. Only at the stock exchanges of the sixteenth century, particularly at Lyons and Antwerp, were the bills of exchange of certain trading houses considered safe from the very outset. At these exchanges the concept of absolute credit-worthiness emerged, which gave an objective interchangeable value to obligations that were independent of personal considerations of credit-worthiness.

Simmel might well have applied a similar analysis to money itself, though he does not seem to have done so explicitly. For instance, it has been argued that by becoming expert in judging a single medium of exchange, transactors can economize on the cost of determining the quality of goods offered in exchange.<sup>35</sup> Without the emergence of the ability to determine at low cost whether or not a particular specimen of money is indeed what it purports to be—reducing information asymmetries and measurement costs—money too cannot have “an objective interchangeable value.”

Although in many respects his discussion provides merely a stunning anticipation of contemporary arguments in the New Institutional Economics, Simmel’s stress on constructed interchangeability does differ in some important ways. The notion of “transaction costs” implies a preinstitutional metric for measuring such costs. Simmel’s argument, by contrast, reveals the qualitative shift in calculability that occurs when institutions allow different objects or different persons to become truly interchangeable, so that the notion of costs acquires a precision it previously lacked.<sup>36</sup> As Simmel puts it, “Only metaphysics can construct entities completely lacking in quality, which perform the play of the world according to purely arithmetical relations.”<sup>37</sup> The significance of money, standardized commodities, or completely reliable obligations is that they achieve an approximation to this purely arithmetical status.<sup>38</sup> Let us call such constructed entities consisting of denumerable, interchangeable elements *abstract commodities*.

A second important feature of Simmel’s treatment is that abstract commodities are public entities. Their significance is not only in making the individual transaction less expensive to carry out, but in cementing a collectivity that shares standards defining abstract commodities.<sup>39</sup> It is this communal aspect of the definition of abstract commodities that is critical for their role in enabling tacit coordination. Holders of abstract commodities are all holding examples of the “same” thing: it is for this reason that money can be an analog to volume in the burning theater example.<sup>40</sup> Discussing stock exchanges, Simmel makes the familiar point that a stock’s price movements can be driven by predictions about the actions of influential market players without any change in the circumstances of the firm issuing the stock. He notes that

the real value of the object appears to be the irrelevant substratum above which the movement of market values rises only because it has to be attached *to some substance, or rather to some name*. . . . Now value follows, almost without resistance, the psychological impulses of the temper, of greed, of unfounded opinion, and it does this in such a striking manner since objective circumstances exist that could provide exact standards of valuation.<sup>41</sup>

The name of an object of speculation is the name of an abstract commodity—shares of stock in IBM, barrels of North Brent crude, rubles—about which the important facts are that it has interchangeable form, mathematical aggregability, and an agreed, public identity (a name).<sup>42</sup> Thus one can get tides of optimism buoying prices up, waves of pessimism driving them down: the natural imagery comes naturally, because the situation already appears elemental and beyond direct individual control, signs that the preconditions for a game with g-rules have been created.

The relationship between the social construction of interchangeability and tacit coordination on the basis of mutual guesses about expectations deserves further explication. The market participant who buys shares in a particular stock, or lots of a particular standardized commodity, or sums of a particular currency, does so on the presumption that other market participants will recognize the acquired items as authentic representatives of their category. There must be transpersonal standards for determining the identity of the item, which the individual seeks to apply in the particular instance to ensure that she/he has acquired a genuine example. There are h-rules here: accept oil with specified characteristics as “North Brent crude,” accept a piece of paper with specified features as “ten rubles.” An individual could always refuse to abide by them in any particular case, or try to get a partner to come to a local agreement about what counts as “ten rubles” rather than implementing generally accepted rules. But purchases based on predictions about future market value *must* make the general assumption that such behavior is rare and curious. If one is not buying what the community recognizes as a share of IBM stock, one is not buying anything at all. These identity-conferring rules, for all practical purposes, become inviolable, even without explicit enforcement.<sup>43</sup> This makes it possible for tacit coordination based on abstract commodities to be adequately described by g-rules of game theory.<sup>44</sup>

The way in which abstract commodities enable g-rules, and the contrast of these rules with h-rules, may be seen in an example of a sort in which Russia is rich. When the structures sustaining the interchangeability of abstract commodities collapse, their holders are plunged from the world of g-rules back into that of (violable, malleable, manipulable) h-rules, and a mighty contrast it is. In August 1998 Russia announced a default on some of its debts and a large devaluation of the ruble. Prior to this date, holders of these debts (primarily government bonds known as GKO's) had possessed an abstract commodity, units of which could be sold as interchangeable on liquid markets that quoted prices. As soon as the default was announced, however, controversy emerged over whether all holders of GKO's would be treated equally. What had been a collectivity maintained automatically by possession of an abstract commodity became a collectivity that could only be maintained by surmounting a collective action problem. Planned distinctions in the treatment of foreign and domestic investors were bitterly protested by the former; there were also various cases of special arrangements to pay off the

GKO's held by particular institutions. In the end, the Russian government seems to have effectively pursued a program of divide and conquer. Once abstract holders of GKO's became concrete ones, the GKO's were no longer an abstract commodity, and the universality of h-rules became a matter of sharp contention in a way that the universality of g-rules could not have.

What, then, is the relevance of game theory for the study of institutions? When the definition of abstract commodities has created collectivities whose delimitable possible actions can be coordinated by mutual expectations, potential ebbs and flows of this constructed mass can form an "underlying game," adequately described by g-rules, on which institutions can indeed be a superstructure. North and Weingast argue that British parliamentary institutions set up at the end of the seventeenth century amounted to a credible commitment that government debts (denominated abstract commodities exchanged for money) would not be repudiated.<sup>45</sup> The South Sea bubble of 1720—an extraordinary spiral of rising stock price expectations—demonstrates how these early abstract commodities created possibilities for tacit coordination.<sup>46</sup> Blackburn and Christensen state that studies of credibility in monetary policy usually characterize the process as "a leader-follower game of two players—a dominant centralized policy-making body and a private sector consisting of many spatially separated atomistic agents."<sup>47</sup> Here the whole anonymous mass of holders of interchangeable money is effectively aggregated into a single "player," whose ever-present capacity for collective panic may be tamed by institutions such as an independent central bank or an exchange rate peg. The theater has been built, the spectators assembled; institutions then serve to broadcast messages of calm from the stage. Of course, there is always the danger that these messages will be ignored, and in this regard any institutions built on top of the underlying situation clearly have a different status: they are always h-rules, never g-rules. Nevertheless, because abstract commodities unite collectivities of homogenous players, relatively incapable of horizontal influence on one another or pulling strings for special treatment, the game-theoretic metaphor is fairly effective. The important thing to remember, though, is that this effectiveness is the *outcome* of social process, not an indicator that game theory is always and everywhere appropriate. Indeed, despite the fact that the NIE has much to offer the student of the social construction of inter-changeability, this potential cannot be realized in its game-theoretic formulation.<sup>48</sup>

To conclude this discussion, we may note that the distinction between h-rules and g-rules in many regards parallels the distinction between "legal order" and "conventional order" introduced by Max Weber. Weber argues that both kinds of order rest on coercion. "It is only with regard to the sociological *structure* of coercion that they differ: The conventional order lacks specialized personnel for the implementation of coercive power (enforcement machinery: priests, judges, police, the military, etc.)," being enforced in a decentralized fashion by "social disapproval of norm infringement with its, often very real, indirect conse-

quences . . . [amounting to] psychological as well as (at least indirectly) physical coercion.”<sup>49</sup> So law is consciously policed by a specialized apparatus, where convention rests on a decentralized process of social standardization. In the case of the definition of abstract commodities, it is not so much psychological coercion as material interest that ensures individual compliance to group norms, but the term convention still seems appropriate.<sup>50</sup> Weber’s language makes it easier to relate the distinction between g-rules and h-rules to the contrast between the transactional and juridical functioning of institutions described above. Money and corporate stock are abstract commodities. For their purchase and sale to be possible, what is required is a clear conventional definition of their identity, which bears the force of a g-rule. Yet the juridical functioning of these institutions in organizing corporate governance or the settlement of legal obligations rests on law, that is, on h-rules. The possibility of a split between the transactional and juridical operation of these institutions is opened, then, by their distinct sociological foundations. It still must be explained how this possibility became a reality.

#### SOCIOLOGICAL INSTITUTIONALISM: UNRULY RUSSIA

Russian efforts to build a market economy are, of course, efforts to make Russian institutions resemble institutions elsewhere. This fact suggests the potential relevance of sociological institutionalism.<sup>51</sup> Sociological institutionalism takes the position that organizational and institutional forms spread through processes of “isomorphism”—pressures to conform to established, authoritative models.<sup>52</sup> John Meyer has applied this perspective to the nation-state, arguing that a “world polity” sustains in multiple ways organizations that conform to a legitimate image of a nation-state.<sup>53</sup> In particular, states can generally count on powerful backing when they pursue elimination of competing organizations and exclusive control over territory, population movements, and the means of violence.<sup>54</sup> By contrast with this relatively timeless (if not exceptionless) aspect of the state system, other aspects of Meyer’s account more clearly reflect the time (1980) at which his essay was written. The world polity supported nation-states in efforts to produce values defined as such by an ideology of “progress” rather than by world markets. Cast in the vocabulary of economists, the legitimated policy agenda of peripheral nation-states focused on the production of non-tradables rather than tradables. When this caused problems in the balance of payments, restrictions on consumption of imported goods and forms of import-substituting industrialization resulted.<sup>55</sup> In effect, “the proper state [was] essentially socialist in one or another form, incorporating the economy in its structure and assuming a commanding role.”<sup>56</sup> The legitimacy of etatism correlated with the illegitimacy of the international market and multinational corporations; these latter were “perceived as necessary, powerful, wealthy, but stigmatized in important ways as illicit pariahs.”<sup>57</sup> In short, Meyer describes a “Great Untransformation” in which international markets were increasingly subordinated to and marginalized by etatist national poli-

cies, policies vested with international legitimacy and supported by great resources.<sup>58</sup>

Meyer's vague terminology can at times be discomfiting. Figuring a coherent world polity as an actor in its own right, or describing world cultural definitions of the proper nation-state as a "shared and binding set of rules exogenous to any given society," seems to beg important questions about the degree and coherence of international consensus.<sup>59</sup> Nevertheless, I will retain his usage here, employing world polity and world culture without quotation marks, in the conviction that a more metaphysically adequate reformulation, though quite possible, would be long-winded and distract from the issues at hand.<sup>60</sup> Meyer's phraseology allows a parallel attempt to capture the international institutional *Zeitgeist* of today. And what a difference two decades make! Etatism is out; markets are in. To preserve Meyer's framework, we need to affirm that the world polity has new guidelines for legitimate construction of a nation-state, or, to use Neil Fligstein's term of art, a new "conception of control."<sup>61</sup> Legitimacy and resources flow to those states that embrace international market forces, not ignore them. It is important to realize that while etatism is out, the *state* is not—and it is this that makes Meyer's essay of more than historical significance.<sup>62</sup> The prevalence of the focus on market institutions once again demonstrates the power of Meyer's argument that the standardization of the organizational forms of the nation-state is much greater than could be explained as a case-by-case balancing of economic interests and political power.<sup>63</sup> Developing countries today are hearing and heeding urgings to define clear property rights, establish or improve stock exchanges, enforce contracts, regulate their monetary systems, even create futures markets—in short, build institutions, understood very much in the NIE tradition as mechanisms to reduce transaction costs and sustain trade.<sup>64</sup> Normatively and practically, institution building is a job for the state. Like the earlier etatist policies Meyer described, market liberal institution building is legitimated by powerful international actors, and legitimacy is backed up by resources.<sup>65</sup> Yesterday's nation-state was taught to seek progress; today's is taught to reduce transaction costs. Such is the new "cultural content of the world polity."<sup>66</sup>

Let us try to specify the content of this hypothesized new world culture of market institution building more precisely.<sup>67</sup> It contains, first, *templates for the organization of exchange*. The most general of these is the abstract commodity as defined in the preceding section: a socially specified entity composed of interchangeable units, reliably identified as authentic by members of some collectivity. A more specific template is that for a price-setting market, in which two abstract commodities are exchanged against one another by interchangeable traders. There are also models for specific abstract commodities—money being the most obvious and important example—and specific price-setting markets. These are examples of Meyer and Rowan's "rationalized institutional elements."<sup>68</sup>

Second, world culture specifies the "abstract authority . . . [to be] claimed by any given nation-state."<sup>69</sup> I suggest that along with a monopoly on legitimate vio-

lence, nation-states are expected to seek *sovereignty over transactions*.<sup>70</sup> Sovereignty over transactions obtains when three conditions are met. First, an exhaustive legal classification of transactions exists. Second, each party to any transaction, if not an individual, is a legally registered formal organization with an authorized structure.<sup>71</sup> Third, the means of payment in transactions is that licensed by the state, and denomination in its units gives any transaction a determinate value. Naturally, full sovereignty over transactions is unattainable, just as a complete monopoly on legitimate violence is. However, I would suggest that whatever the mechanisms promoting isomorphism in nation-states are, the claim of sovereignty over transactions is one of the norms they promote most vigorously.

Finally, and perhaps most controversially, world culture contains a *vision of society* as composed of atomized and homogenous individuals. These individuals are seen as encompassed by the formal rules of the nation-state, which is to say, their significant possible actions are completely specified in these rules as either allowed or proscribed. More succinctly, *this vision of society imagines that nation-states enact not h-rules, but g-rules*. Once rules have been enacted, they define a stage game played repeatedly between the state and members of society. As the preceding section demonstrated, this forward-looking vision of institutions, which sees the enforcement of h-rules as a means of affecting generalized expectations about the future rather than dealing with a concrete violation in the past, implies an atomized and homogenous society as a virtual corollary.

It may seem implausible to assign an authoritative status in world culture to what appears an abstruse academic perspective. One could counter this objection by noting that many important actors in the world polity do have Ph.D.'s in economics: compare the vision of society in an article by an influential former advisor to the Russian government.<sup>72</sup> But let me make this suggestion more plausible in another way: this vision of society is the world as it appears from the securities trading floor. On the trading floor, the sort of collectivity familiar is that defined by an abstract commodity, and society is understood analogously.<sup>73</sup> On the trading floor, government authorities are people one watches on television while considering the sole and eternal question: buy, sell, or hold? Thus it is natural to assume that the way government interacts with society is primarily through cheap talk, signals, and commitment mechanisms designed to structure expectations and prompt particular choices from an exhaustive menu of options. The leadership of the International Monetary Fund (IMF) spends much time observing the same sort of process from the other side of the television set, and this may matter more than their economics degrees. One does not need the game theorists' technical sophistication to share their vision of society.

The elements of world culture just enumerated—templates for organizing exchange, the mandate for sovereignty over transactions, and a game-theoretic vision of society—involve a deep tension. Sovereignty over transactions is necessarily implemented through h-rules, yet if the game-theoretic vision of society is as powerful as I suggest, these will constantly be interpreted as g-rules. In other

words, instead of understanding the construction of state power as involving the displacement or co-opting of competing powers, as Weber taught, building state power will be seen as sending sufficiently convincing signals to a waiting, preaggregated mass of listeners.<sup>74</sup> For the reasons laid out in the first section, treating h-rules as g-rules makes it impossible to analyze either the embedding of rules in other forms of social structure, or the subversion of rules through innovative interpretation. These considerations lead to a hypothesis: *Institutional isomorphism of templates for organizing exchange will be far greater than in sovereignty over transactions.* The world polity does make resources available for both sorts of projects. However, it makes these resources available to those who propose “rational accounts” that accord with its vision of society.<sup>75</sup> This vision of society is wildly inappropriate for construction of sovereignty over transactions, but quite appropriate for creating and managing abstract commodities. Thus the prediction in the creation of abstract commodities isomorphism will be achieved, while in the realm of building sovereignty over transactions the effort to form an “externally legitimated state” will lead to “inconsistency, hypocrisy and ritualism.”<sup>76</sup>

Before turning to case studies intended to substantiate this hypothesis, let me note that it of course assumes that Russian society and economy are not amorphous substances easily reshaped to conform to authoritative models of markets and to submit to universalistic rules. The obstacles to marketization in Russia stem especially from its inherited *economy of idiosyncrasies*, which has proved very deeply resistant to abstraction of all sorts.<sup>77</sup> Given the discussion above on the constructed nature of abstract commodities, one might conclude that all economies begin as economies of incommensurable idiosyncrasies, and this would be correct. Nevertheless, the Soviet economy produced and continually reproduced two kinds of idiosyncrasies that have interfered with the application of universalizing market metrics. First of all, the Soviet economy relied very heavily on informal, personalized mechanisms for making decisions, coordinating production, and resolving disputes.<sup>78</sup> In an extremely stimulating essay on legal institutions in Russia, Kathryn Hendley criticizes what she terms the “Development Argument”: the assumption that once appropriate laws were in place, economic actors would begin to make use of them.<sup>79</sup> This did not happen, on her view, because the abstractions embodied in law were threatening to the position of enterprise directors:

Resorting to the legal system leaves the director at the mercy of a judge, who decides the case based on the evidence and guided by the law. In theory, status considerations are irrelevant. In contrast, calling upon private contract enforcers—whether a security force internal to the enterprise or an outside group—does not diminish the power of the director . . . [who] continues to pull the strings.<sup>80</sup>

It is not necessary to fully endorse Hendley’s view of enterprise directors’ motivations to appreciate the very deep importance of the point she has made.<sup>81</sup> The “Development Argument” in effect argues that there is a demand for commercial



law which will be manifested once such laws are supplied.<sup>82</sup> Yet if we recall that in a market economy demand only appears as a meaningful aggregate because consumers are all holding units of money, we will see what is wrong with this perspective: it assigns economic actors a prior homogeneity regarding their attitude to law, ignoring the variegated local contexts in which appeals to formal rules will be inserted. Thus the “Development Argument” rests on the same view of society as composed of atomized and homogenous actors diagnosed as above as a key feature of contemporary world culture.

The second element of Russia’s economy of idiosyncrasies is more unusual than the pervasive role of informal ties. Though money and prices had a vastly different role in the Soviet economy than they did in any non-Communist economy, these denominated entities nevertheless existed. The numericality of Soviet money did not in the least qualify it as abstract commodity, for it did not embody an effective social construction of interchangeability. To facilitate the operation of the command economy, Soviet money was divided into partitioned realms.<sup>83</sup> The most famous of these partitions was that between cash and noncash money (*nalichnye i beznalichnye den’gi*), held by enterprises and consumers, respectively. There were very many others. Within these partitioned realms, the monetary unit (the ruble) had some degree of coherence and practical commensurability. Across them, however, operations of aggregation were usually quite meaningless, though they could have dangerous implications for economic management. Avoiding the consequences of false aggregability and jealously maintaining the partitions between realms were the major preoccupations of Soviet monetary authorities. It was in this fractured and incommensurable money that Soviet industrial prices were denominated. This legacy of contorted and frustrated numerical abstraction is a second reason the Russian economy has been so resistant to the imposition of universalizing models.

The balance of this section provides evidence in support of the thesis that Russia’s pattern of partial isomorphism to authoritative market models has its origin in the encounter of an economy of idiosyncrasies with outside practices and doctrines geared to impose abstract metrics but unable adequately to conceive the task of building sovereignty. The first case study focuses on corporate governance and the stock market. The second deals with money. These cases are helpful, because they are relevant both to templates for organizing exchange and to the claim of sovereignty over transactions. Both stock and money did come to function as abstract commodities, regularly and reliably exchanged and generating coordinated expectations, yet their function as legal claims remained seriously incoherent.

### *Corporate Governance*

In the final years of the Soviet Union, the organizational and ownership status of many Soviet enterprises had already begun to change.<sup>84</sup> Still, for most enter-

prises the watershed event occurred in the second half of 1992, when by Presidential Order Boris Yeltsin enjoined virtually all state-owned enterprises to reorganize themselves as joint-stock companies. Although the stock would be held by the state until privatization, this was the first step to constituting the stock of each individual enterprise as an abstract entity composed of interchangeable and alienable shares. In most large firms, privatization then occurred at some point over the next two years. In privatization, shares of stock could be “purchased” for special vouchers. Vouchers were distributed, one per citizen, at a nominal fee. Voucher holders who did not want to buy shares in privatized companies were able to sell their vouchers for cash at whatever the market would bear.

Virtually without exception, as all commentators agree, the key priority of enterprise managers in this early phase was to ensure that the ownership of stock was concentrated in the hands of enterprise insiders (managers and workers). All evidence indicates that they were extremely successful in this effort, in large part thanks to a privatization law designed to allow insiders the option of claiming priority rights to purchase 51 percent of shares outstanding with vouchers. The vast bulk of enterprises chose to exercise this option, and privatization concluded with insiders firmly in control. A survey of 61 enterprises in December 1994 revealed that on average 59 percent of stock was owned by insiders and 29 percent by outsiders.<sup>85</sup> (Outsiders did own 9 percent more stock than a year earlier, however.) Outsiders could acquire large blocks of stock only if they could convince workers to part with their shares, and most directors did their very best to discourage this. Alienability was further hampered by the lack of clear mechanisms for registering owners of shares; firms that maintained their own share registry might refuse to register transactions of which they did not approve. Regulations requiring independent registrars were routinely ignored or subverted. One small survey of firms in 1996 reported that “Only one-third of the firms that are required to keep their shareholder registers outside the firm actually do so.”<sup>86</sup>

In any event, even if outsiders did acquire shares and get them registered, this would hardly guarantee adequate participation in corporate governance. After surveying enterprise directors’ rich panoply of methods for ensuring the docility of worker-shareholders, Clarke and Kabalina wonder why managers even bothered to manipulate shareholder votes, given their complete operational independence. “If the shareholder’s meeting has passed resolutions which are not to the liking of the president of the shareholding company, the president can reverse them, or the minutes of the shareholders’ meeting can be falsified. If the board includes malcontents, the president simply fails to call meetings.”<sup>87</sup>

The hegemony of insiders did eventually come to face some challenges. In 1995 and 1996, Russia carried out a *de facto* privatization of plum enterprises, mostly in the oil sector, that had been withheld from the earlier wave of privatization, in the so-called loans-for-shares auctions. In effect, large blocks of stock in these firms were distributed for very low prices to influential Moscow banks in an

effort to create a base of support for Yeltsin in the 1996 presidential election.<sup>88</sup> For these banks, the new acquisitions were a major boost to their expanding finance-industrial groups (FIGs).<sup>89</sup> These same FIGs, as well as some internationally financed outsiders, could also make plays for other interesting companies by buying up the supply of stock available to outsiders, which gradually increased as some insiders sold their holdings. Still, despite new opportunities and a new corporate law, stock ownership was nothing like an automatic guarantee of a role in corporate governance. Companies resisting outsiders could often count on the support of local government authorities, who thereby demonstrated that they were realistic enough not to regard these enterprises as the abstract, faceless, bureaucratic entities codified in their corporate charters. The FIGs in some cases faced intense struggles in winning practical acceptance of the ownership rights granted to them in the loans-for-shares auctions.<sup>90</sup> Outsider shareholder efforts to install new management regularly provoked long-running court battles and refusals to abide by court decisions. When Russia's leading business magazine published its annual list of the country's largest firms by sales, it included thumbnail histories of 1997 developments at thirty-one of the largest; eight had experienced serious conflicts over control rights, in at least one case lasting as long as three years.<sup>91</sup> In St. Petersburg, late 1998 saw at least two major public conflicts over corporate governance. In one case, managers of a major holding firm trying to outflank shareholders ordered all the firms' employees to sign letters of resignation and then hire on with a new firm, registered hundreds of miles away in Arkhangelsk. In another case, management of a porcelain factory refused to acknowledge a group of foreign investors who had acquired well over half the firm's stock, claiming (possibly with some justification) that the sales had been illegitimate. Examples could be multiplied many times.

In sum, although privatization converted insiders into formal owners of their enterprises, *it was not in virtue* of their ownership that insiders controlled their enterprises. Rather, theirs was a power descended from the idiosyncratic and personalistic power directors had enjoyed under state socialism, especially in its final years.<sup>92</sup> As Clarke and Kabalina put it, "the shareholding company is seen as a financial-juridical body without any management role in relation to the productive enterprise, beyond appointing the enterprise director, normally the same person as the president of the shareholding company."<sup>93</sup> Pistor<sup>94</sup> and Hendley<sup>95</sup> diagnose a similar disjuncture between the abstract forms governing control rights in theory and the personalistic content governing them in practice. Pistor concludes that extremely weak legal controls over management in the early postprivatization period enabled managers to entrench their position so firmly that even much-improved legislation implemented from the beginning of 1996 would do little to change the situation.

The whole pattern just described corresponds quite precisely with the sociological-institutional prediction of "decoupling" of practical activity from exter-

nally legitimated form.<sup>96</sup> However, the necessity and usefulness of decoupling indicates how inappropriate it would be to assume that feeble law enforcement provides an explanation for the way Russian enterprises are run. Russian enterprise managers do not simply *ignore* laws on corporate governance. If law were irrelevant, managers would not have sought ownership in the course of privatization, nor would they have endeavored to keep stock in the hands of insiders, nor to engineer formal decisions of shareholder bodies in their favor. Thus Hendley's ascription to enterprise directors of a blanket unwillingness to resort to universalistic law as incompatible with their status is too strong. When the h-rules contribute to enterprise directors' desire to maintain control of their enterprises, these rules are learned and maximally exploited.<sup>97</sup> They become one among other resources at directors' disposal.<sup>98</sup> The h-rules on corporate governance, then, should not be taken as specifying a game with g-rules, in which the options are obey the h-rule or not; this would imply that when the rules are obeyed, the reason is fear of punishment, rather than tactical usefulness in a particular situation.<sup>99</sup> As argued above, h-rules are embeddable in a way g-rules are not.

Merely tactical conformity to h-rules has not been enough to ensure that the state of Russian corporate governance passes muster from Russia's international "institutional environment." Meyer's discussion of the structures transmitting the cultural content of the world polity to the periphery notes the key role of the IMF and World Bank. In dealing with these agencies, "Approved national development plans . . . are vital devices with which to obtain loans."<sup>100</sup> In a direct contrast that tellingly conveys the new priorities of the age, Hendley notes that "many laws related to economic development, such as banking and securities legislation, have been demanded not by Russian businessmen but by international financial institutions. In some instances, the release of money from the World Bank or the IMF has been linked to the passage of specific laws."<sup>101</sup> The United States' Agency for International Development (AID), for its part, funded the drafting of the Russian corporation law.<sup>102</sup> As unsurprising as these facts are, they are excellent evidence for Meyer's fundamental point that one must look at pressures for isomorphism if one is to understand the organizational forms of the nation-state, and of firms contained within them.

The nearly complete failure of pressures for institutional isomorphism to effect a transformation in the practice of corporate governance is especially striking when it is compared to the wildly successful emergence in Moscow of what can only be termed, paraphrasing Gilbert and Sullivan, "the very model of a modern securities market." This market is the Russian Trading System (RTS), which is in fact a computer network linking members of an effective, self-policing brokers' association, NAUFOR. By creating and enforcing standards of behavior for its members, NAUFOR was able to turn the RTS quotation system into a reliably functioning, price-setting market whose participants could treat one another as interchangeable with a substantial degree of assurance.<sup>103</sup> In fact, due to difficul-

ties with share registries, brokers seem to have had much more bother transferring their underlying abstract commodities—shares of stock—than they did with dealing with deceit. NAUFOR's success, Timothy Frye argues, would have been hard to predict given its members' lack of dense social ties, and their general heterogeneity regarding organization, goals, and time horizons. Instead Frye suggests that NAUFOR flourished thanks to two pieces of state policy. The first was a (unusual) policy of fiscal forbearance, which maintained tax rates for trading transactions at tolerable levels. The second was the decision by the government's nominal securities market agency, the Federal Commission on Securities, both to fund NAUFOR's early activities and to vest it with delegated authority to regulate exchange.

Frye's discussion of NAUFOR's origin is especially rich and interesting. The creation of NAUFOR, he demonstrates convincingly, was a political stratagem adopted by the Federal Commission in a jurisdictional dispute with other agencies, including the Ministry of Finance and the Central Bank. By nurturing the brokers' association and helping to get a price-setting exchange up and running, the Federal Commission successfully forestalled attempts to incur on its jurisdictional territory. Frye concludes that "the creation of market institutions . . . need not be driven by a coherent team of elites who agree on a reform plan. The Federal Commission's strategy of delegation was driven in large part by the bureaucratic competition to oversee the potentially influential corporate equities market."

Endorsing this innovative conclusion, one can also note the obvious importance of international support for institutional isomorphism in the account Frye presents. The proposal for building the stock market around a self-policing broker organization was prepared in part by experts from the U.S. Agency for International Development. Once NAUFOR was operating, "funds and technical assistance" from the same agency helped to sustain the Federal Commission's policy of strengthening the organization. NAUFOR's electronic trading system adopted the same software as America's NASDAQ.<sup>104</sup> Even the conflict between the Commission and its rivals was structured by the international context. Without international models that implied the future significance of the stock market, the conflict would not have emerged in the first place. Furthermore, although Frye notes Russia's Central Bank "appealed to nationalism and home-grown remedies in its struggle against the FCSM and its plethora of western advisors," he describes the Bank's alternative proposal as a "German-style equities market."<sup>105</sup>

The Federal Commission's reliance on outside ideological and practical support in an internal struggle parallels Meyer's observation that "World perspectives become the devices used by internal elites in deciding when and why and how to attack the established state."<sup>106</sup> The importance of the resources associated with conformity to authoritative models can be seen by comparing the outcome of the jurisdictional conflict over the stock market with the results of a very similar conflict over the market in financial instruments known as "wechsels" or bills of

exchange.<sup>107</sup> Though technically representative of a type of financial obligation defined by international conventions, *wechsels* in fact were novel instruments essentially used for barter trades.<sup>108</sup> In seeking to win jurisdiction over the *wechsel* market, the Federal Commission offered a plan for organizing this market that responded to actual Russian practice but did not conform to international definitions of bills of exchange. As a result, charges that the Federal Commission was proposing the violation of an international convention became an important weapon in the parliamentary debates around the future of the *wechsels*. In the end, the Federal Commission lost badly, while the Central Bank formed a self-regulating organization to manage the *wechsel* market.

It remains to note that the application of international organizational templates designed to enable price-setting trades of abstract commodities did make possible the patterns of tacit cooperation discussed in the first section of this article. Russia's stock market was the number one performer among emerging markets over several years, reaching many multiples of its original value in a vast bubble before crashing and losing more than 90 percent of its value in the first half of 1998.<sup>109</sup> The fundamental disconnect between stock as object of speculation and stock as guarantee of participation in corporate governance had no effect on the booming market, a circumstance Frye has termed "perverse liquidity."<sup>110</sup> That the success of dominant world models in promoting isomorphism in the stock market contrasts so sharply with their total failure in transforming the practice of enterprise management is in some ways surprising, given that both were based on the same implicit social theory. A discussion of the Russian corporation law by its key U.S. AID-funded drafters refers to their ambition to create a "self-enforcing" law.<sup>111</sup> Although their sense of this term is broader than that in game theory,<sup>112</sup> it does adequately capture their effort to design an institution that would induce behavior by structuring expectations, while obviating the need for an appeal to courts. This argument proceeds from the assumption that the law will exhaustively define the terms of interaction within enterprises—that its stipulations will be not h-rules, but g-rules.<sup>113</sup> This assumption, of course, was massively misguided;<sup>114</sup> in fact, many enterprise directors do not even know the law's provisions.<sup>115</sup> If a similar self-enforcing institutional design worked much better in the organization of NAUFOR, this reflects the fact that NAUFOR was a new social space, created *ab novo* according to models drawn from the international environment.<sup>116</sup>

### *Money*

The idea that each country should have its own currency, managed by a single central bank and circulated through a banking system operating on the fractional-reserve principle, was until recently one of the central taken-for-granted elements of world economic culture. Even European monetary unification had to be achieved against great resistance, and was built by transferring precisely the model of a monetary system just specified to a cross-national level. When Russia

opted for radical market reforms in late 1991, it briefly appeared that there would be an effort to maintain a unified monetary system (the “ruble zone”) for most of the post-Soviet republics.<sup>117</sup> However, as the implications of a system with multiple money-creating central banks began to be realized, developments quickly veered back in the direction of the authoritative model, which then became the backdrop to a long struggle over the nature and meaning of money.

Money as defined in the authoritative model serves as both medium of exchange and an exclusive means of payment.<sup>118</sup> The description of money as a medium of exchange refers to money’s use as a pathway to connect a good or service one has to sell with the good or service one wants to buy. When money is accepted in exchange on the expectation that it will be possible to spend it, it is serving as a medium of exchange. Money as a means of payment, by contrast, is defined not from the perspective of an exchanging individual but with respect to a legal system regulating exchange. The means of payment is the unit in which obligations are incurred and settled in a particular legal system. When I transfer the appropriate amount of the appropriate means of payment to my creditors, they have no further claims against me. It is generally held that money’s use as medium of exchange is what allows it to serve as means of payment. If individuals do not expect that they will be able to spend money in voluntary transactions, they will resist accepting it in payment no matter what the legal situation.

It will be noted that an understanding of money as a medium of exchange resonates with the vision of society held above to be characteristic of world culture. Money’s medium of exchange function depends on individuals’ expectations about what other individuals—abstract and interchangeable individuals—will do. Money’s medium of exchange function is a multisided game that can be modeled with g-rules.<sup>119</sup> The holders of money are like spectators in the theater, and if they all take flight at once the consequences are dire. By contrast, money as means of payment necessarily depends on legal regulations, that is, on h-rules. Since 1992, the world polity (operationalized here as the IMF) has indeed sought to promote isomorphism to an ideal of a single national money that is at once medium of exchange and exclusive means of payment. However, given its vision of society, achieved isomorphism in money as medium of exchange is much greater than that as money as means of payment.

In the first three years after the collapse of the Soviet Union, Russia’s interactions with the IMF were dominated by money’s medium of exchange role, especially as it might be affected by inflation.<sup>120</sup> The Fund held that inflation stemmed from the excess creation of money by the Central Bank, which enabled price rises and stoked expectations of further such rises that might grow into a cycle of self-fulfilling prophecies conceivably concluding with a hyperinflationary “flight from money.” Policy recommendations focused on a maximal reduction of budget deficits. When budget deficits could not be fully avoided, they should be funded not by inflationary creation of new money, but rather by borrowing money using

government bonds. In addition, cash rubles became freely convertible into dollars. From 1995, Russia implemented a policy of an exchange-rate corridor, pledging to maintain the ruble-dollar exchange rate within a narrow band. This policy was also intended primarily as an inflation-fighting measure to stabilize expectations about the ruble's value. By mid-1994, inflation had been substantially reduced, and after a brief flare-up in early 1995, inflation dropped consistently until, by 1996, it had become a minor issue. As the ultimately successful fight against inflation proceeded, Russia also created a number of price-setting markets designed to allow the ruble to be exchanged against various other abstract commodities. These included markets for foreign currency, government bonds, interbank loans, and even futures contracts on the value of the ruble. Although the details were in every instance different, these markets were created on the general templates available in world culture, with direct international influence operative to one or another degree. They functioned relatively reliably, despite occasional breakdowns.

In short, within three years after the collapse of communism, Russia displayed substantial isomorphism to international models for the maintenance of a national currency as an abstract commodity, serving as medium of exchange and traded against other abstract commodities in a variety of price-setting markets. The implementation of a currency band as a way of making a credible commitment to the ruble's future value was indicative of this success: this institution became a superstructure on an underlying game that had been reliably organized and was definitive of g-rules.

As early as 1994, however, Russia began to experience challenges to the ruble's exclusive status as means of payment. The emergence of alternate means of payment is an intricate story, but the barest outlines of the history must be related here if the ways in which alternative means of payment raised difficulties for institutional isomorphism are to be understood.<sup>121</sup> As the monetary environment tightened, especially from the middle of 1993, many Russian firms found that they had run up debts to suppliers that they were unable to pay. This was especially true of debts to suppliers in what Russians term the "base branches" of the economy: energy and transport. However, rather than simply shutting off supplies to nonpaying enterprises—which was politically difficult and in any event would have amounted to a commercially senseless policy of destroying their limited customer base—these branches began to accept payment of debts in the production of their debtors: in kind. In these barter transactions, goods served as a means of payment, canceling debt of a particular numeric value, denominated in rubles. Such barter transactions spread with extraordinary rapidity in the first half of 1994. Firms' in-kind income, which had an official value denominated in rubles, incurred tax obligations likewise denominated in rubles—without generating any rubles to pay them. Thus as the barter trade expanded, so too did debts for taxes. Local governments, faced with the revenue crunch, very quickly developed mech-



anisms for in-kind taxation, letting goods serve as means of payment for ruble-denominated tax debts. As the vast fiscal implications of barter became clear, the federal government too found itself forced to concede to the use of alternative means of payment in taxes, which it began to do from the fall of 1994. From that point forward, nonmonetary exchange and taxation became ever more prevalent.

Although the details would take us too far from our main themes, this development, like the debility of corporate governance, was deeply related to the legacy of the Soviet economy of idiosyncrasies. Ordinarily, one would imagine that firms who find that customers are unable to afford their product would simply cut prices. Accepting in-kind payment of unsustainable old debts might serve as a one-time solution, but then in the future lower prices would avoid a repeat of the problem. However, for a number of reasons, Russian firms were not in a position to do this.<sup>122</sup> In many industrial firms, a large share of the costs passed on to consumers stem from payments for installed capital. Since Soviet firms' capital was substantially acquired in the Soviet period, it is extraordinarily difficult to price. This problem has, in effect, been dealt with by simply applying a coefficient to the meaningless Soviet-era prices; accounting regulations stipulate that depreciation for equipment so valued must be included in costs.<sup>123</sup> The resulting high formal costs pose practical problems. Russian firms were (until quite recently) not allowed to cut prices below cost of production; tax authorities feared that this would allow firms to hide off-the-books income by declaring unrealistically low prices.<sup>124</sup> Thus giving de facto price cuts through accepting in-kind payment became an ongoing solution to institutions creating price stickiness.

From the perspective of the game-theoretic vision of society central to world culture, the emergence of alternate means of payment was baffling. For the rise of barter illustrates the gulf separating h-rules from g-rules. The h-rules specified: pay your debts in the official means of payment; if you cannot pay your debts, pay the consequences. If one regarded them as g-rules, payment and nonpayment would be an exhaustive set of options. Barter, however, was an unforeseen third alternative. The IMF, accustomed to helping manage currencies understood as media of exchange in an environment governed by g-rules, could only try to assimilate the new phenomenon to its vision of an atomized and homogenous society interacting through structures of mutual expectations.<sup>125</sup> If firms were running up unpayable debts, for instance, they must be expecting monetary expansion, indicating that the commitment to fighting inflation was insufficiently credible.<sup>126</sup> When the federal government issued ruble-denominated instruments designed to facilitate in-kind taxation, it must be ratifying these expectations through a covert form of money issue.<sup>127</sup> Similarly, it was argued, letting tax debts associated with the barter trade grow encouraged firms to shift to barter to evade taxes.

These explanations, based on the image of isolated actors determining their activity on the basis of individual predictions about the reaction of central authorities, became the basis of IMF policy, the leitmotif of which was an effort to get the Russian government to send credible signals that it would not tolerate the barter trade nor adapt to its consequences. Yet the very size of this trade—by 1998, it was estimated that 50 to 70 percent of the sales of industrial enterprises were in kind, but the figures were much higher in the fiscally critical base sectors from far earlier—made the idea that the federal tax authorities could simply refuse to make some accommodations to nonmonetary trade absurd. When alternate means of payment serviced prices there had been no rubles to pay, they increased the ruble-denominated price level beyond that that could have been sustained by rubles alone. Ruble-denominated tax obligations were similarly deprived of a connection with the volume of rubles in circulation. As a result, the IMF's demand that all taxes be collected in full and only in money in order to avoid sending a signal that barter would be tolerated was, quite literally, a demand to accomplish the impossible.<sup>128</sup>

It is no wonder, therefore, that Russia's conformity to the authoritative international model of an exclusive means of payment was quite ritualistic. At times, federal nonmonetary taxation reached as high as 50 percent of revenues. The long story of the IMF's fight with nonmonetary taxation can be conveniently summarized by the memorandum the Russian government agreed to in return for receiving a loan in summer 1998. This document explicitly foreswore *three* successive alternate means of tax payment the federal government had adopted since 1994 and specified that there be "no . . . other nonmonetary fiscal transactions . . . carried out by the federal government."<sup>129</sup> After the financial collapse of August 1998, the new Russian government devoted much effort to developing a vocabulary that would mask the inevitable continued practice of nonmonetary taxation from the IMF, apparently with some success.

To summarize, then, both in corporate stock and in money we see the same pattern of partial isomorphism to authoritative international models offering templates for organizing exchange and specifying the legal authority over transactions to be claimed by the state. As abstract commodities, money and corporate stock potentially define homogenous communities united by shared expectations. World culture offered models for organizing the exchange of these commodities and managing the resulting expectational communities, and these models were successfully implemented in Russia due to pressures for institutional isomorphism quite similar to those specified by Meyer. However, pressures for isomorphism to established models of the role of stock in corporate governance and official money as exclusive means of payment promoted only extremely ritualistic conformity. This failure was due to the fact that authoritative international actors interpreted the state's h-rules as g-rules, effectively ascribing to the infirm Russian state a thoroughgoing sovereignty it was very far from possessing. In the

case of corporate stock, the distinction between g-rules and h-rules demonstrated itself in the ability of enterprise directors to not so much flout as subvert the provisions of law, embedding them in more personalistic forms of power. In the case of money, the emergence of substitute means of payment as an alternative to paying obligations in money or not paying them at all illustrated that h-rules, unlike g-rules, do not specify an exhaustive set of choices for action. On the basis of these case studies, we may give a ringing endorsement to Meyer's statement that "The abstract authority claimed by any given nation-state, especially in the periphery, is much more a reflection of the state of the world system as it evolves over time than of basic societal complexity or development."<sup>130</sup> Furthermore, it appears that present-day world culture is based on a vision of society that forces a deep blindness to the tasks involved in making claimed authority a reality.

#### HISTORICAL INSTITUTIONALISM: CAN RUSSIA BE RULED?

In the first section of this article, I followed Mirowski in arguing that some formulations of the NIE fundamentally obscure the study of social process by confusing the rules of game theory (g-rules) with the rules that humans enact for one another to follow (h-rules). Humans' rules always potentially apply to concrete actors with varied social ties, actors who are, in effect, playing different games. It is therefore dangerous to assume that any given h-rule has a meaningful expression as an equilibrium in an underlying game described by g-rules. When h-rules can be expressed in terms of g-rules, this is an outcome of social process. Thus the transaction-cost reducing institutions with which the NIE is preoccupied create qualitative transformations in social life, not just quantitative ones, by creating new, standardized collectivities united by a shared concern in the fate of abstract commodities with conventional public definition. That these collectivities do engage in behavior adequately modeled by game theory, prompting the creation of institutions intended to stabilize expectations and determine choice from an exhaustive menu of alternatives, has strengthened the confusion between g-rules and h-rules. The second section argued that this same confusion has been incorporated into authoritative world culture. Applying the perspective of sociological institutionalism, I demonstrated that the game-theoretic vision of society—the security trader's social theory—has limited the ability of the world polity to promote conformity to some of the institutional forms it specifies. In particular, states are expected to achieve a thoroughgoing sovereignty over transactions, including the legal definition of the parties involved and the means of payment used. Such sovereignty involves the enactment and enforcement of h-rules. When h-rules are submerged in other social structures or subverted through innovative interpretation, world culture attempts a deeply inappropriate reconceptualization of the problem in terms of g-rules, leading to feeble policy prescriptions to which there can be only thoroughly ritualistic conformance. Shackled to a vision of institutions that sees them as resting on the expectations of homogenous and standard-

ized actors looking to the future, the mighty organizations of the world polity find themselves frustrated and baffled by the ways Russia's varied and particular actors deal with the legacies of the past.

If Russia's future is not merely the next round of repeated play in a game whose rules are exhaustively determined by the ambitions of its state, will that future consist merely in being judged wanting by external standards on the proper relationship between law and economics? To address this question, we must put aside, at least temporarily, the sociological-institutional framework that has proved so helpful. If Meyer is correct that the blandishments of the international community are the only prize to which domestic elites can aspire, then there is little potential for change. Yet surely elites do perceive and strive for the benefits that transformation of their own societies could offer. At least conceivably, actors within Russia could find reasons to make the affirmation of state sovereignty over transactions and the spread of orderly and secure market exchange a project of their own. Their efforts would presumably benefit from a more realistic picture of the social structures they inhabit. Space allows only the most preliminary and speculative of suggestions on how to approach the study of the politics of this potential transformation. First I argue that the study of postsocialist market building can draw inspiration from a third school of institutional theory, "historical institutionalism" (HI), though postsocialist experience also highlights the need for a radical revision of the developmental histories that have been at HI's intellectual core. I then return to sociological institutionalist themes to discuss how international circumstances might affect internal developmental processes.

At first blush, historical institutionalism is an unlikely source of inspiration for a study of the institutions that sustain exchange and make social abstraction plausible, since such institutions have held marginal interest for HI scholars. Unlike the NIE or sociological institutionalism, historical institutionalism offers not so much a theory of institutions as a vision of history.<sup>131</sup> History, on the HI view, presents nation-states and key political actors within them with particular foundational challenges, the solutions to which create enduring patterns of politics and state-economy interactions. Above all, this line of thinking must trace its descent to Marx and Gerschenkron, and their analyses of industrialization. From Marx, HI takes the idea of class formation as the pivotal political event of industrialization. Gerschenkron offers the insight that there was no single model of industrialization—the requisite capital accumulation can occur variously. By extension, the class formation concomitants of industrialization can occur variously as well.<sup>132</sup> Yet whatever form it takes, industrialization on the HI account is a "critical juncture" with abiding results: as an exceptionally strong formulation has it, "the way in which the problem of industrialization is resolved lays down, in each country, an institutional foundation that structures the way in which all subsequent problems are resolved."<sup>133</sup>

Scholars in the HI tradition find such institutional inertia plausible because they believe that political and bureaucratic organization are in effect one-off processes, or at least one extremely difficult to modify. Once individuals have been incorporated into particular social identities, interest groups, and party structures, they are no longer available to those seeking to organize political life around other cleavages. Similarly, once executive authorities have developed the bureaucracies that manage the economy and structure their interactions with the organizations of civil society, these rarely undergo fundamental change. In recent polemics with rational choice theory, advocates of HI have sought to systematize and specify these insights about institutional inertia—to build them into general theoretical postulates, rather than specific ones linked to the economic and political aftermath of industrialization. In this vein, contemporary formulations of HI emphasize that the organization of political actors and the arenas in which they interact will restrict the interests that can be expressed and shape chances for political success. Politics can therefore not be seen as a series of collisions between hard-edged, preconstituted interests; rather, interests and politics interact continuously in a dialectical process of mutual influence structured by an institutional order.<sup>134</sup> In line with this generalizing thrust, Paul Pierson has specified historical institutionalism as follows: “This scholarship is *historical* because it recognizes that political development must be understood as a process that unfolds over time. It is *institutionalist* because it stresses that many of the contemporary implications of these temporal processes are embedded in institutions—whether these be formal rules, policy structures, or norms.”<sup>135</sup>

Such attempts to broaden the theoretical generality of HI may elide some of the perspective’s distinctiveness and power. A fairer summary of HI’s intellectual tradition would be narrower. HI is historical because it emphasizes the enduring impact of *particular* developmental sequences (and industrialization above all). It is institutional because it seeks to understand *which* institutions transmit and organize the legacies of developmental paths. These points resonate with a stirring recent critique by Ira Katznelson, who sympathetically chides contemporary HI for a “substantive and conceptual retrenchment” that has led to “a loss to the élan and potential of comparative politics.”<sup>136</sup> Katznelson calls for a reinvigoration of the “grand macroanalytical tradition” exemplified by Moore’s *Social Origins of Dictatorship and Democracy* or Skocpol’s *States and Social Revolutions*. What especially attracts Katznelson is the narrative power such works display, which he hopes to recapture on a more metaphysically defensible basis. Thus Katznelson calls for “a particular kind of narrativity: less than the metanarrativity of presuppositional narratives about such grand concepts as progress and enlightenment or such commanding but general processes as the creation of mass society and class struggle, but more than the emplotment of the many stories history offers up.”<sup>137</sup> However, the classic and more recent works in political and administrative development that Katznelson singles out for praise all terminate by World

War II. This raises the suspicion that the real target of his dissatisfaction might not be historical institutionalism but rather history itself. Themes of the present day in developed countries, such as the shrinking of the welfare state or the shift from Keynesianism to monetarism, for all their importance, cannot have the drama of class formation and state building, which reverberate with what Schumpeter once called “the thunder of world history.” The macro-analytic tradition could chronicle a world in the making, whereas recent historical institutionalism must treat a world going about its quotidian business.<sup>138</sup> It is as if there is a magical and an unmagical time, History and history, a bifurcation corresponding to the HI notion that important institutional changes happen in bursts at critical junctures. For Katznelson, what happens after the critical juncture is just less interesting. If the intellectual fires of HI are to burn brightly once again, he concludes, new fuel must be sought in under-exploited historical materials, especially through conceiving American political development in a comparative frame.

Students of the vast postsocialist transformation (and other contemporary market-building exercises) are not likely to be enthusiastic about the implication that intellectual grandeur is possible only in the study of the past. But they do need greatly the sort of narrativity for which Katznelson pines. The very enormity of the changes underway in postsocialism leave analysts uncertain where to look for developments of more than transitory interest, fostering a ceding of initiative to sterile formulations of the social theory of the securities trader.<sup>139</sup> So even when the *content* of HI studies is not directly relevant, their *form*—their broad sense of that history displays developmental patterns and poses foundational challenges—could offer some important guidance on how an effective research program might proceed. The underlying Marx-Gerschenkron framework that gave HI its narrative force will clearly not do, however. First, both Marx and Gerschenkron were concerned above all with production technologies, not with transaction technologies (which in Marx’s view were anyway rapidly obsolescing into fetters on production). Second, and not unrelatedly, HI’s argument for the continuity of macro-polities and macro-economies rests on a tacit belief in a radical discontinuity at the level of the micro-polity and micro-economy. For it is the atomization presumed to accompany industrialization—Marx’s notorious “all that is solid melts into air”—that makes individuals available for their perdurable incorporation into the polity and an institutionalized class structure.<sup>140</sup> Addressing this failing of HI’s implicit vision of social history is critical if HI is to provide any purchase on postsocialism’s striking juxtaposition of the adaptive modification of socialist-era social ties with the breakdown of national institutions. A non-Marxist developmental history would need to offer guidance into the dynamics transforming economies and societies of idiosyncrasies into more intellectually manageable forms. It would also need to avoid assuming that this is a problem soluble only by coercive, state-led rationalization, something the Russian experience sketched above suggests is extremely implausible.

As a point of departure, we might return to Simmel's description of the social construction of interchangeability as an evolutionary process. There are dangers here: misunderstood, reified, shorn of its basis in an implicit methodological individualism, and mechanically generalized to inappropriate spheres, Simmel's analysis indirectly formed a major pillar of the extended "era of stagnation" in social theory and comparative politics associated with the name of Talcott Parsons. There was nothing preordained about these Parsonian errors, however. As the first section of this article illustrated, Simmel himself was quite well aware that the collectivities defined by common recognition of abstract commodities rest on concrete institutions, especially, in the case of modern money, the state. A Simmelian vision of social evolution would investigate how an existing, unplanned, tendency to social standardization is recognized, rationalized, extended, and perfected. An example might be the emergence of money from barter. In a standard view, money arises from barter when transactors, weary of searching for a partner who is willing to exchange the idiosyncratic good they are seeking for the idiosyncratic good they have on offer, switch to the easier procedure of swapping their initial good for a widely desired one, which in turn may be exchanged for the finally desired good. With time, these widely desired goods attain the status of money.<sup>141</sup> What this ignores is that widely desired goods do not come standardized by nature; indeed, various forms of minting appeared extremely early, giving money a widely shared and clearly specified identity to which it was tending, but which it could not have attained on its own.<sup>142</sup> So too with central banking, which improves on commercial banks' usually imperfect efforts to create deposits or issue notes accepted exactly at par with gold or other official currency by creating general systems of regulation intended to make all banks equally reliable. Or we might think of a commodity exchange itself guaranteeing execution of deals between its members, though these members' constant interactions and interest in their reputations had already gone a long way to rendering them consistently reliable.<sup>143</sup>

To employ Weber's vocabulary, all of these cases are examples of how law is far more often built on, around, and through convention than it is built in opposition to it.<sup>144</sup> If abstract commodities and other forms of social standardization emerge after a spontaneous social tendency that has created an approximate interchangeability is *consciously* completed, then one can investigate the administrative, economic, and political interests prompting these interventions in social process. Here the danger of an indiscriminating enthusiasm for generalization is especially great; there will be no general theory of social standardization. What we want to know is *which* processes of social standardization have lasting effects, and which efforts to rationally reconstruct emergent social order have the foundational character that marks a critical juncture. Answers to these questions are best pursued inductively, especially through work on the better-documented and longer-settled historical trajectories of early developing countries. It is plausible

that fruitful investigation will link a Simmelian vision of social evolution to the intertwined processes of territorial expansion of exchange and the creation of trade-sustaining institutions, and above all to the origins and destiny of the economic powers of the nation-state.<sup>145</sup> One of Douglass North's major insights is that state-built economic institutions serve to expand the territorial scope of exchange beyond what private reputational and quasi-reputation mechanisms make possible, though this, too, may be found in Weber.<sup>146</sup> Even Marx's account of primitive accumulation might be read in such a spirit.<sup>147</sup> But the major resource for this sort of project, of course, is Karl Polanyi, and his discussion of the creation of national markets through deliberate state action.<sup>148</sup> The idea that states pursue sovereignty over transactions as energetically as a monopoly on violence creates the potential to make *politics* and *state building* the link between the territorial expansion of trade and the institutions (abstract commodities among them) that foster it.<sup>149</sup> Katznelson's call for a mid-range historic narrativity could then find an answer in the construction of new ideal types that would characterize the process whereby states, in alliance with other interests, acquire the powers that permit them not only to sustain themselves but to displace or incorporate private institutions allowing trade across a particular territory. Perhaps one example of such an ideal type might be the notion of monetary consolidation, the process whereby states gain exclusive control over the definition of the means of payment on their territory.<sup>150</sup> The political and administrative construction of an integrated national market is another.<sup>151</sup> Since the study of institution building as the political construction of integrated markets centers around a dynamic politics of inclusion in and exclusion from markets, it of necessity focuses on issues beyond the ken of game-theoretic accounts of institutions, with their fixed players in an unchanging game.

In conclusion, it remains to return to the issue of how internal projects to rationalize evolutionary processes by creating institutions ordering exchange, integrating markets, and permitting taxation are linked to international pressures for institutional isomorphism. Given the striking relevance of the general sociological-institutional conception of the nation-state and the equally striking contemporary irrelevance of Meyer's formulation of world economic culture, the first step is to understand what has changed. As many practitioners of sociological institutionalism emphasize, sensitivity to processes tending to reproduce authoritative organizational forms must not be allowed to obscure the way politics and shifting interests bring new organizational forms to the fore.<sup>152</sup> The change in the world culture's definition of the proper economic role of the nation-state is clearly an example. This shift did not occur solely in response to intellectual developments in the economics discipline—the Nobel Prize committee passed up many opportunities to recognize the work of North and Coase before the late 1990's (and in any event such hardly obscure figures as Simmel and Weber had quite completely anticipated their main arguments a century ago). Rather, the embrace



of the NIE seems to be a straightforward case of base determining superstructure. Kiren Chaudhry, presciently relating economic liberalization to new tasks of state building, argued that liberalization resulted from the drying up of international capital flows such as foreign aid and receipts from primary commodity sales that had funded statist projects.<sup>153</sup> These flows could only be replaced with foreign direct investment (FDI), under the control of private actors. These actors demand policies like privatization, protection of the property rights so created, enforcement of contracts, and predictable exchange rates—institutions guaranteeing their ability to realize a return on their investments.<sup>154</sup> Reflecting on the prevalence of examples involving luxury goods in the lectures of Austrian marginalists, Nikolai Bukharin concluded that the theory of value they developed expressed the habits of those engaged in consumption, rather than production. As a result, he termed marginalism “the political economy of the rentier.”<sup>155</sup> In a similar vein, one might say that the NIE has become the political economy not so much of the securities trader in general as of the emerging markets specialist in particular.<sup>156</sup>

If there is in world culture an atomistic, game-theoretic view of society connected to changing patterns of international investment and the institutions it demands, the implications extend well beyond Russia. On the most general level, a preliminary hypothesis can be formulated as follows: *Contemporary late developing countries are marked by a double fissure between law and convention.* The first of these is the fissure between the convention-based alienability of abstract commodities and their law-based juridical functions described above for the case of Russia. Many late-developing countries (or “emerging markets,” as the quite revealing new idiom would have it), bereft of other sources of capital, have imported templates for the organization of exchange that will link the abstract commodities of world markets to local analogs. With the aid of international organizations, it appears, these abstract commodities can generally quickly come to have a reliable conventional identity. By casting a thin net of shared expectations across the territory of the peripheral country that has created them, abstract commodities make their possessors equal citizens in an airy kingdom floating on mutual faith, but do little to transform their variegated earthly circumstances. Into this lofty kingdom international investors come as if returning home, albeit often in stampedes that are as reversible as they are enthusiastic.<sup>157</sup> As evidence from non-Russian contexts appears to bear out, the stabilization of expectations regarding the identity and value of abstract commodities is a quite distinct process from building the effective state sovereignty that will allow abstract commodities to perform their juridical functions.<sup>158</sup> Creating effective sovereignty depends on a domestic coalition for a state-building, market-integrating project, but whether this process is sustained or hindered by the kind of capital flows abstract commodities enable is clearly a matter for further research.<sup>159</sup> Before the August 1998 crash in Russia, the stable and strong exchange rate allowed large, Moscow-based banks to use borrowed capital and revenue from one-way bets to fund a program

of industrial empire-building intended in large measure to conquer the internal market, which the strong ruble made attractive.<sup>160</sup> To a limited extent, this project was compatible with and dependent on stronger state capacities for taxation and enforcement of business law—the capacities to move beyond the conventional, forward-looking abstractions defining money and stock to the practical, retrospective abstraction required in concrete law enforcement situations.<sup>161</sup> Conceivably, such processes may have been brought to a successful conclusion elsewhere; in Russia, however, they appeared stalemated even in the most favorable of conditions for the Muscovite banks.

If international resources made available by institutional isomorphism in templates for organization of exchange are insufficient to sustain a top-down state-building program that will achieve effective sovereignty over transactions, then autonomous processes of the social creation of abstraction and market integration would seem to be the alternative. Yet if Russia is any guide, such autonomous processes may well be thwarted by the claims to sovereignty inevitably embodied not only in internationally legitimated abstract commodities, but also in the legitimated forms of the nation-state described by Meyer.<sup>162</sup> Russian protection rackets, for example, are undergoing vigorous evolution, moving beyond direct violence and developing rudimentary forms of merchant law, yet these regulative processes are inevitably competitive with those of the official state.<sup>163</sup> As noted above, Russian businesses' innovative efforts to move beyond barter by using wechsels as a medium of exchange and means of payment were unable to win legitimation on the national level. These alternate monies did find an institutional home at the local level, however.<sup>164</sup> It is not my intent to promote a Hayekian glorification of these spontaneous processes, the rationality of which derives from a contorting and ineffectual legal framework claiming a sovereignty not made good in practice, and which in any event are rife with violence and graft. Rather, the point is that sharp conflicts between the decentralized evolution of social abstraction and the legal authority the world polity encourages (or coerces) nation-states to claim may constitute a second fissure between convention and law characteristic of contemporary relative backwardness.

In the nineteenth century, European bankers convinced Egyptian pashas that they must make good the losses of foreign investors or lose access to credit; this personalized effort to stabilize expectations inevitably involved new borrowing, enabling cycles of loan-sharking that David Landes did not hesitate to term "imperialism."<sup>165</sup> So perhaps our investigation, too, has been an investigation of imperialism,<sup>166</sup> including the well-intended disciplinary imperialism of the game theorists, whose blindness to developmental processes and assumption of an underlying game parallels the world polity's blindness to the distinction between speculative instruments and sovereign power. The task for social scientists is to forge all varieties of institutionalism into a tool not for the study of financial markets (and everything else as if it were a financial market), but for studying the his-

torical emergence of sovereignty over transactions. Whatever the theoretical prospects for such an investigation, we have to hope that there are empirical prospects for the project it will study, which may involve breaking the h-rules (or are they already g-rules?) defining the legitimate forms of the international economy. For otherwise Russia, and probably a growing number of other countries as well, can expect not to reap the “advantages of backwardness” by transferring transaction technologies, but only perpetuation of the present “decoupling,” in which ritualistic conformity to the norm of a single means of payment coexists with the nonmonetary taxation that keeps the government running, and in which tactical conformity to the norms of corporate governance coexists with personalistic power in the factories. Meanwhile, the world polity’s definition of the situation will be implemented in fully functioning markets for the abstract commodities of corporate stock and money, giving international investors an opportunity to slake their thirst for exorbitant profits—if tacit coordination manages to get another bubble going, at any rate.

## NOTES

1. For two prominent and relatively recent exceptions, see Alice H. Amsden, *Asia’s Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); and Kiren Aziz Chaudhry, “The Myths of the Market and the Common History of Late Developers,” *Politics & Society* 21, no. 3 (September 1993): 245-74.

2. Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, MA: Harvard University Press, 1962).

3. Peter B. Evans, *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil* (Princeton, NJ: Princeton University Press, 1979); James R. Kurth, “Industrial Change and Political Change: A European Perspective,” in David Collier, ed., *The New Authoritarianism in Latin America* (Princeton, NJ: Princeton University Press, 1979), 319-62.

4. Thorstein Veblen, *Imperial Germany and the Industrial Revolution* (New York: B. W. Huebsch, 1918). For the opposite position, that technology cannot be defined absent its “supporting institutions,” see Alice H. Amsden, “A Theory of Government Intervention in Late Industrialization,” in Louis Putterman and Dietrich Rueschemeyer, eds., *State and Market in Development: Synergy or Rivalry?* (Boulder, CO: Lynne Rienner, 1992), 57.

5. Compare the brief intellectual history of the transition “from physical capital to human capital to social capital” given in Christopher Clague, “The New Institutional Economics and Economic Development,” in Christopher Clague, ed., *Institutions and Economic Development: Growth and Governance in Less-Developed and Post-Socialist Countries* (Baltimore: Johns Hopkins University Press, 1997), 13-36. The volume as a whole also illustrates this point.

6. Compare Kathryn Hendley, “Legal Development in Post-Soviet Russia,” *Post-Soviet Affairs* 13, no. 3 (July-September 1997): 228-51. Those fortunate enough to have read this excellent essay, whose influence will be felt throughout the present article and which receives more extensive discussion below, will recognize that this argument is substantially a restatement in more general language of Hendley’s main thesis.

7. For the alternative view that the critical transaction technologies for business adaptation to present market conditions are not the those embodied in law at all, see Charles F. Sabel and Jane E. Prokop, “Stabilization through Reorganization? Some Preliminary

Implications of Russia's Entry into World Markets in the Age of Discursive Quality Standards," in Roman Frydman, Cheryl W. Gray, and Andrzej Rapaczynski, eds., *Corporate Governance in Central Europe and Russia* (Budapest: Central European University Press, 1996), 151-91. Whatever the accuracy of this viewpoint, it is hoped that the case studies given in the present article will demonstrate that some law-rooted transaction technologies (money and corporate ownership forms) do retain decisive relevance.

8. This point is stressed both by Douglass North and Max Weber. See the account of both theorists in Hendley, "Legal Development in Post-Soviet Russia," which, however, presents a slightly narrow reading of Weber, understating his substantial anticipation of North's arguments. Cf. Douglass North, *Institutions, Institutional Change and Economic Performance* (Cambridge, UK: Cambridge University Press, 1990); Max Weber, *Economy and Society: An Outline of Interpretive Sociology* (Berkeley: University of California Press, 1978), esp. 311-19, 325-38; and Randall Collins, "Weber's Last Theory of Capitalism: A Systematization," in Mark Granovetter and Richard Swedberg, eds., *The Sociology of Economic Life* (Boulder, CO: Westview, 1992), 111-30.

9. For a survey of these schools of institutional theory, see Peter A. Hall and Rosemary C. R. Taylor, "Political Science and the Three New Institutionalisms," *Political Studies* 44, no. 5 (December 1996): 936-57.

10. Douglass North, *Institutions, Institutional Change and Economic Performance*, 3-4.

11. Randall L. Calvert, "The Rational Choice Theory of Social Institutions: Cooperation, Coordination, and Communication," in Jeffrey S. Banks and Eric A. Hanushek, eds., *Modern Political Economy: Old Topics, New Directions* (Cambridge, UK: Cambridge University Press, 1995), 216-68.

12. Paul R. Milgrom, Douglass C. North, and Barry R. Weingast, "The Role of Institutions in the Revival of Trade: The Law Merchant, Private Judges, and the Champagne Fairs," in Daniel B. Klein, ed., *Reputation: Studies in the Voluntary Elicitation of Good Conduct* (Ann Arbor: University of Michigan Press, 1997), 243-66.

13. It will not do to say both players choosing to cheat is equivalent to "no trade," since all this does is admit that the prisoners' dilemma framework is not appropriate, given the radically different meaning of cheating depending on what one's partner plays. Not having dealings with a person and making off with goods she has advanced you are two different actions. Similarly, someone who "cheats" as a way of not playing will have trouble interpreting the payoff that ensues on a "partner's" choice of cooperation.

14. Philip Mirowski, "Institutions as a Solution Concept in a Game Theory Context," in Philip Mirowski, ed., *The Reconstruction of Economic Theory* (Boston: Kluwer-Nijhoff, 1986), 253. Indeed, one author has chosen to refer to the underlying game as specified by "nature." Calvert, "The Rational Choice Theory of Social Institutions," 229.

15. This distinction is from Mirowski, "Institutions as a Solution Concept in a Game Theory Context," 257-58. Mirowski distinguishes between "'natural' rules" and "bootstrap rules," equivalent to our g-rules and h-rules, respectively. The remarks in this section of this article are intended in part clarification, in part extension, and in part application of the approach of Mirowski's extraordinary essay, which should be read by anyone seeking to apply game theory in political science or political economy, and the efforts I have made to give complete citation are probably inadequate. The difficulty of making adequate citation is compounded by the great overlaps between the work of Mirowski and that of Georg Simmel, which is also discussed extensively in this section.

16. Pierre Bourdieu, *Outline of a Theory of Practice* (Cambridge, UK: Cambridge University Press, 1977), 33-52.

17. Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91 (November 1985): 481-510. For a

demonstration of the appositeness of Polanyi, and an excellent discussion of the embedding of laws in “relational settings,” see Margaret Somers, “Citizenship and the Place of the Public Sphere: Law, Community, and Political Culture in the Transition to Democracy,” *American Sociological Review* 58 (October 1993): 587-620.

18. Cf. Weber’s discussion of “gaps” in law, *Economy and Society*, 330.

19. Mirowski (“Institutions as a Solution Concept,” 258), may mean something similar when he invokes Wittgenstein to say that “A rule does not certify its own correct application.”

20. *Ibid.*, 258.

21. Consider, for instance, the model given in James D. Fearon and David D. Laitin, “Explaining Interethnic Cooperation,” *American Political Science Review* 90, no. 4 (December 1996): 715-35. In this model, which is also based on repeated play of a prisoners’ dilemma game by pairs of actors randomly matched with one another, rule violators are members of one of two ethnic groups. Members of the same ethnic group are assumed to have complete information about one another’s history of play, allowing them to directly punish violations by co-ethnics, but no information about the history of play of members of other ethnic groups. Fearon and Laitin note that this assumption is a “tractable simplification” intended to capture key aspects of more complicated patterns of social ties (721). It may well be an appropriate simplification, and is rendered plausible by an argument about the functions of ethnicity in maintaining social order (717-18). Nevertheless, the fact that even in a model by authors sensitive to ethnographic nuance, all violators are viewed as belonging to one of two abstract classes, in each of which every member is identical to all others, demonstrates the how game-theory formalism mandates the assumption of the standardization and homogeneity of actors.

22. For example, see Robert M. Price, *Society and Bureaucracy in Contemporary Ghana* (Berkeley: University of California Press, 1975) and more generally Reinhard Bendix, *Nation Building and Citizenship: Studies of Our Changing Social Order* (Berkeley: University of California Press, 1977).

23. Mirowski, “Institutions as a Solution Concept,” 260.

24. Somers, “Citizenship and the Place of the Public Sphere,” is very convincing on this point, although game theory is not her target.

25. “Institutions as a Solution Concept,” 258.

26. *Ibid.*, 253.

27. For an example of the common juxtaposition of these situations, see Paul Krugman, *The Return of Depression Economics* (New York: W. W. Norton, 1999), 164. Some may be inclined to think that these cases are precisely those *badly* described by game theory, since the actions of any individual cattle grazer, investor, or theatergoer have little impact by themselves and thus there is little strategic interaction. However, the possibility of continued grazing, an orderly exit, or a reasonable price level can be thought of as a public good, and the collective action dilemmas associated with such goods are regularly modeled as multisided prisoners’ dilemma games. See, for example, Peter C. Ordeshook, *Game Theory and Political Theory: An Introduction* (Cambridge, UK: Cambridge University Press, 1986), 223.

28. Along with natural rules and bootstrap rules (g-rules and h-rules), Mirowski thinks social scientists can discover “evolutionary regularities” in the way bootstrap rules and natural rules interact and change one another over time. Such evolutionary processes can change the conception of the natural. (“Institutions as a Solution Concept,” 258-59.) It is somewhat obscure in his formulation whether these processes also give rise to new forms of natural games, presumably adequately modeled by game theory. In any event, the evolutionary emergence of “natural” games is what I will be discussing here.

29. For more detail and references, see below.

30. This, in other words, is the social creation of denumerable analogs to the fish or fed animals of Mirowski's example cited above.

31. Georg Simmel, *The Philosophy of Money* (London: Routledge, 1990).

32. Simmel anticipates many themes of Philip Mirowski, "Learning the Meaning of a Dollar: Conservation Principles and the Social Theory of Value in Economic Theory," *Social Research* 57, no. 3 (Fall 1990): 689-717, an essay that has much influenced this reading of Simmel. See also Philip Mirowski, "Mathematical Formalism and Economic Explanation," in Philip Mirowski, ed., *The Reconstruction of Economic Theory* (Boston: Kluwer-Nijhoff, 1986), 178-240; the language of "social construction" is drawn from this essay.

33. Simmel, *Philosophy of Money*, 124.

34. *Ibid.*, 294. For an interesting sociological account of commodity standardization based on similar arguments, see Mitchell Abolafia, "Self Regulation as Market Maintenance: An Organizational Perspective," in Roger Noll, ed., *Regulatory Policy and the Social Sciences* (Berkeley: University of California Press, 1985), 312-43.

35. Karl Brunner and Allan H. Meltzer, "The Uses of Money: Money in the Theory of an Exchange Economy," *American Economic Review* 61, no. 12 (December 1971): 784-805, as summarized in Thrainn Eggertsson, *Economic Behavior and Institutions* (Cambridge, UK: Cambridge University Press, 1990), 235.

36. Compare Mirowski, "Institutions as a Solution Concept," 259-60, who makes a similar point while discussing other authors.

37. Simmel, *Philosophy of Money*, 279.

38. Compare also Mirowski, "Learning the Meaning of a Dollar," 709:

The first assertion of a modern social theory of value is that the attributes of a commodity which are to be treated as relevant to market activity are themselves socially constructed, in the sense that the mathematical prerequisites of an abstract algebra are socially imposed upon some arbitrary subset of the entire constellation of phenomenological peculiarities found there, in order to endow that category with an 'identity' . . . and to prepare the way for its formal subsumption under the structures of value. . . . This process is . . . the outcome of specific structures which intend that explicit result. . . . In contrast to neoclassical economics, we do not come into the world hard-wired for commodity space; the space in which prices will be defined is fluid, impermanent, and initially hostile to mathematical expression.

39. When two people use money to facilitate exchange, "the pivotal point in the interaction . . . recedes from the direct line of contact between them, and moves to the relationship which each of them, through his interest in money, has with the economic community that accepts the money, and demonstrates this fact by having money minted by its highest representative." Simmel, *Philosophy of Money*, 177.

40. Compare Mirowski's discussion of the constructed nature of "sameness" in "Mathematical Formalism and Economic Explanation" and "Learning the Meaning of a Dollar."

41. Simmel, *Philosophy of Money*, 326. Emphasis added.

42. Compare Simmel's discussion of foreign exchange markets (*ibid.*, 121), where he speaks of "objects" divided into "quanta."

43. Mirowski may be driving at something similar when he writes that "institutions provide the invariants so that rules may have some rational interpretation." "Learning the Meaning of a Dollar," 710.

44. In a discussion of money and other market institutions, game theorist Martin Shubik asks "Should we assume that laws and customs are to be modeled as rules of the game which are given and never broken? The other alternative . . . [would] include laws and penalties for violation." Martin Shubik, "Money, Trust, and Equilibrium Points in Games

in Extensive Form,” *Zeitschrift für Nationalökonomie* 34, no. 3-4 (1974): 383. Although he is not definitive in his answer, it appears Shubik feels that in circumstances where transactions involve fiat money, are backed by a reliably and cheaply functioning legal system securing contracts, and occur in mass markets, it is appropriate to omit the violation of rules and model of market dynamics in the form of a noncooperative game between the participants (380, 382). This also seems to be an implicit description of a trajectory from standardization to tacit coordination. For an extensive discussion of Shubik’s views, see Mirowski, “Institutions as a Solution Concept,” who has a somewhat different reading.

45. Douglass C. North and Barry R. Weingast, “Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England,” in Lee J. Alston, Thrainn Eggertsson, and Douglass C. North, eds., *Empirical Studies in Institutional Change* (Cambridge, UK: Cambridge University Press, 1996), 134-65. Although this article presents no game-theoretic model, it could easily be described in terms of one, and its approach shares game-theoretic assumptions.

46. On the other hand, the specifics of Parliament’s role in this episode call North and Weingast’s causal mechanisms into significant doubt. Christopher Reed, “The Damn’d South Sea,” *Harvard Magazine* 101, no. 5 (May-June 1999): 36-40.

47. Keith Blackburn and Michael Christensen, “Monetary Policy and Policy Credibility: Theories and Evidence,” *Journal of Economic Literature* 27, no. 1 (March 1989): 8.

48. It may be, however, that analysts have been drawn to a game-theoretic vision of institutions in those circumstances where some social standardization has already been carried out, and at times even the decision to embrace game-theoretic formalism may itself prompt an accompanying attempt to specify how the necessary sociological preconditions came about. The affinities between Milgrom, North, and Weingast’s discussion of medieval trade fairs and Simmel’s have already been noted. Fearon and Laitin (“Explaining Interethnic Cooperation”) also at times seem to be describing the *production* of the sort of social standardization their modeling apparatus requires—for example, through the policing of ethnic boundaries (722). Note that in both cases, the relevant exclusion mechanisms are either modeled misleadingly (in Milgrom et al.) or not at all (in Laitin and Fearon).

49. Weber, *Economy and Society*, 326.

50. Discussing promises, Weber argues (*ibid.*, 328) that economic interest may remove the need “to assume conceptually any ‘order’ outside or above the two parties to guarantee, command, or enforce compliance by means of coercive machinery or social disapproval,” since transactors will want to preserve the possibility of future dealings. This point would seem to apply to consent to the definition of abstract commodities, illustrating that convention too need not be based on coercion.

51. Although the literature on institutions in sociology is obviously enormous and varied, the term “sociological institutionalism” has been applied by Hall and Taylor (“Political Science and the Three New Institutionalisms”) and others to the literature that followed on John W. Meyer and Brian Rowan, “Institutionalized Organizations: Formal Structure as Myth and Ceremony,” in Walter W. Powell and Paul J. DiMaggio, eds., *The New Institutionalism in Organizational Analysis* (Chicago: University of Chicago Press, 1991), 41-62. This edited volume contains many important examples of such literature.

52. Meyer and Rowan, “Institutionalized Organizations”; Paul J. DiMaggio and Walter W. Powell, “The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields,” in Powell and DiMaggio, eds., *The New Institutionalism in Organizational Analysis*, 63-82.

53. John W. Meyer, “The World Polity and the Authority of the Nation-State,” in Albert Bergesen, ed., *Studies of the Modern World-System* (New York: Academic Press, 1980), 109-38.

54. *Ibid.*, 118-20.

55. *Ibid.*, 128. Meyer also argues that another response to the need for foreign exchange is the diversion of land from food to commodity production, although this would seem to be at odds with his general picture of markets on the retreat.

56. *Ibid.*, 121.

57. *Ibid.*, 130.

58. *Ibid.*, 129. Meyer overdraws the contrast with Polanyi, since the undoing of international markets by national actions was one of the major themes of *The Great Transformation*.

59. *Ibid.*, 117. Compare Meyer, "World Polity," 110: "We argue that the world polity is a highly institutionalized system, reified in world social life. Critics will, of course, argue that the reification is going on in our arguments, rather than in the real world."

60. For the same reason, I will make little reference to developments in sociological institutionalism since Meyer's essay, since many of these have pursued a greater precision and sophistication of analysis that is not needed for present purposes.

61. Neil Fligstein, *The Transformation of Corporate Control* (Cambridge, MA: Harvard University Press, 1990).

62. Kiren Aziz Chaudhry, "Myths of the Market and the Common History of Late Developers."

63. Meyer, "World Polity," 116.

64. Kiren Aziz Chaudhry and David Woodruff, "Political Origins of Market Institutions." Paper presented to the Annual Conference of the American Political Science Association. Washington, DC. September 1997.

65. Meyer, "World Polity," 122-23.

66. *Ibid.*, 120.

67. For a somewhat parallel effort that describes a paradigm of "institutionalized free market capitalism," see Gary Hamilton, "Asian Business Networks in Transition: Or, What Alan Greenspan Does Not Know about the Asian Business Crisis," in T. J. Pempel, ed., *The Politics of the Asian Economic Crisis* (Ithaca, NY: Cornell University Press, 1999), 45-61.

68. These would be examples of "rationalized institutional elements" in the terminology given in Meyer and Rowan, "Institutionalized Organizations."

69. Meyer, "World Polity," 121.

70. For suggestive, if rather cryptic remarks in this general direction, see Meyer, 113.

71. On the determination of legitimate organizational forms by the state, see Meyer and Rowan, "Institutionalized Organizations," and Neil Fligstein, "The Structural Transformation of American Industry: An Institutional Account of the Causes of Diversification in the Largest Firms, 1919-1979," in Powell and DiMaggio, eds., *The New Institutionalism in Organizational Analysis*, 311-36.

72. Jeffrey Sachs, "Russia's Struggle with Stabilization: Conceptual Issues and Evidence," *World Bank Research Observer, Annual Conference Supplement* (1994): 57-80.

73. Economic sociologists who have painstakingly documented the existence of social ties and networks among securities brokers might object to this characterization. But the collectivities defined by abstract commodities consist in *all* their many buyers and sellers, not merely the brokers with whom one prefers to trade.

74. Compare the discussion of the "reputational vision of the state," in David Woodruff, *Money Unmade: Barter and the Fate of Russian Capitalism* (Ithaca, NY: Cornell University Press, 1999), 181, 188.

75. Meyer and Rowan, "Institutionalized Organizations," 50.

76. Meyer, "World Polity," 124.



77. The term “economy of idiosyncrasies” is intended as a summary of the brilliant arguments regarding the resistance of the Soviet economy to quantification and the ubiquity of specificity offered by Gregory Grossman, “Gold and the Sword: Money in the Soviet Command Economy,” in Henry Rosovsky, ed., *Industrialization in Two Systems* (New York: Wiley, 1966), 204-36; idem, “Scarce Capital and Soviet Doctrine,” *The Quarterly Journal of Economics* 67, no. 3 (1953): 311-43; P. O. Aven and V. M. Shironin, “Reforma khoziaistvennogo mekhanizma: real’nost’ namechaemykh preobrazovaniï,” *Izvestiia sibirskogo otdeleniia adademii nauk SSSR: seriia ekonomika i prikladnaia sotsiologiia* 13, no. 3 (1987): 32-40; and Egor Gaidar, *Ekonomicheskie reformy i ierarkhicheskie struktury* (Moscow: Nauka, 1990).

78. Joseph Berliner, *Factory and Manager in the USSR* (Cambridge, MA: Harvard University Press, 1957); Aven and Shironin, “Reforma khoziaistvennogo mekhanizma.”

79. Hendley, “Legal Development in Post-Soviet Russia.”

80. *Ibid.*, 244-45.

81. Hendley is so effective at describing the manifest functions of informal relations for Russian enterprises that it becomes somewhat hard to credit the latent function of maintaining directorial power.

82. The extremely helpful language of supply and demand for law is introduced in Cheryl W. Gray and Kathryn Hendley, “Developing Commercial Law in Transition Economies: Examples from Hungary and Russia,” in Jeffrey D. Sachs and Katharina Pistor, eds., *The Rule of Law and Economic Reform in Russia* (Boulder, CO: Westview, 1997), 139-64.

83. Woodruff, *Money Unmade*, 21-55.

84. On the politics of the design of the privatization program see Michael McFaul, “State Power, Institutional Change, and the Politics of Privatization in Russia,” *World Politics* 47, no. 2 (January 1995): 210-43; Anders Åslund, *How Russia Became a Market Economy* (Washington, DC: Brookings Institution, 1995), 223-71; and Maxim Boycko, Andrei Shleifer, and Robert Vishny, *Privatizing Russia* (Cambridge: Massachusetts Institute of Technology Press, 1995). For a remarkable overview of the practice of privatization in enterprises based on extensive anthropological research, see Simon Clarke and Veronika Kabalina, “Privatisation and the Struggle for Control of the Enterprise,” in David Lane, ed., *Russia in Transition* (Longman: London, 1995), 142-58.

85. Joseph Blasi and Andrei Shleifer, “Corporate Governance in Russia: An Initial Look,” in Roman Frydman, Cheryl W. Gray, and Andrzej Rapaczynski, eds., *Corporate Governance in Central Europe and Russia* (Budapest: Central European University Press, 1996), 94-95.

86. Kathryn Hendley, Barry W. Ickes, Peter Murrell, and Randi Ryterman, “Observations on the Use of Law by Russian Enterprises,” *Post-Soviet Affairs* 13, no. 1 (January-March 1997): 34.

87. Clarke and Kabalina, “Privatisation and the Struggle for Control of the Enterprise,” 149.

88. Lest this sound needlessly cynical, I note that this is the description now offered by Anatolii Chubais, who designed and managed the auctions. *MK-Daily*, 23 September 1998, 2; as translated by the Federal News Service, supplied by Dow Jones News Retrieval.

89. Juliet Johnson, “Russia’s Emerging Financial-Industrial Groups,” *Post-Soviet Affairs* 13, no. 4 (October-December 1997): 352-54.

90. Steven L. Solnick, “Gubernatorial Elections in Russia, 1996-1997,” *Post-Soviet Affairs* 14, no. 1 (January-March 1998): 75-76.

91. “Krupneishie kompanii: itogi goda,” *Ekspert* no. 38, 12 October 1998, 28-42.

92. Hendley, “Legal Development in Post-Soviet Russia.”

93. Clarke and Kabalina, "Privatisation and the Struggle for Control of the Enterprise," 149.

94. Katherina Pistor, "Company Law and Corporate Governance in Russia," in Jeffrey D. Sachs and Katharina Pistor, eds., *The Rule of Law and Economic Reform in Russia* (Boulder, CO: Westview, 1997).

95. "Legal Development in Post-Soviet Russia."

96. Meyer and Rowan, "Institutionalized Organizations," 57.

97. The description of the deployment of law to maintain insider control in a Russian aircraft building enterprise in Saratov, given in Gray and Hendley, "Developing Commercial Law in Transition Economies" accords with this same image. Even if Hendley is correct that "At the heart of the director's behavior is a desire to retain power" ("Legal Development in Post-Soviet Russia," 243), this desire prompts a more nuanced attitude to law than she argues.

98. In this regard, directors' attitude to h-rules might be compared to Meyer's discussion of the way peripheral elites promote isomorphism to the authoritative forms of the nation-state for sake of the resources this conformity makes available; "World Polity," 123. The discussion of decoupling in Meyer and Rowan, "Institutionalized Organizations," is less useful here because it assumes that decoupling is a means of preserving organizational efficiency in the face of formal requirements, rather than a way of winning access to external resources in order to pursue an internal political project. Of course, to the extent that directors' informal ties serve adaptive functions for their firms, Meyer and Rowan's sense of decoupling might also apply.

99. Compare Bourdieu, *Outline of a Theory of Practice*, 33-52.

100. Meyer, "World Polity," 122.

101. Hendley, "Legal Development," 237.

102. Bernard Black, Reinier Kraakman, and Jonathan Hay, "Corporate Law from Scratch," in Roman Frydman, Cheryl W. Gray, and Andrzej Rapaczynski, eds., *Corporate Governance in Central Europe and Russia* (Budapest: Central European University Press, 1996), 245-302.

103. Timothy Frye, "Governing the Russian Equities Market," *Post-Soviet Affairs* 13, no. 4 (October-December 1997): 366-95. Quotations in text from an electronic version supplied by Professor Frye. All information about NAUFOR and the stock market in the text is drawn from this article unless otherwise noted.

104. Roderick D. Kiewiet and Mikhail G. Myagkov, "The Emergence of the Private Sector in Russia: A Financial Market Perspective," *Post-Soviet Affairs* 14, no. 1 (January-March 1998): 33.

105. Frye, "Governing the Russian Equities Market."

106. Meyer, "World Polity," 123.

107. Woodruff, *Money Unmade*, 183-87.

108. *Ibid.*, 146-76.

109. The enormous growth in the Russian stock market is discussed, Kiewiet and Myagkov, "The Emergence of the Private Sector in Russia," which connects it exclusively to Russia's economic prospects and signs that corporate governance was improving. This article was written before the crash of 1998.

110. Personal communication. For an unconvincing claim that the Russian stock market crash, which coincided with the world financial crisis, was driven by investor concerns about corporate governance, see the interview with stock trader Marlen Manasov in *Ekspert* no. 26, 13 July 1998, 28-30. Manasov suggests a few flagrant violations of minority shareholder rights, putatively previously a rarity, led investors to "panic." Manasov similarly suggests beginning to address corporate governance problems with "demonstrative"

punishments, although he adds that this must be followed by longer term efforts. After all, “the processes of changing the attitudes of investors is a ridiculously long process. Three to six months, at a minimum.” This argument is a good example of what was described above as the view from the securities trading floor.

111. Black, Kraakman, and Hay, “Corporate Law from Scratch.”

112. *Ibid.*, 250, n. 4.

113. Exceptions seem to be designed to defend the interests of outside investors, a project which, Hendley (“Legal Development in Post-Soviet Russia,” 238) suggests, might have taken precedence.

114. Compare Hendley, “Legal Development in Post-Soviet Russia,” 237-38.

115. Hendley, Ickes, Murrell, and Ryterman, “Observations on the Use of Law by Russian Enterprises,” 34.

116. One should note the parallels between this creation of a new community of homogenized actors and the accounts of exclusion and homogenization that emerge around the margins of game-theoretic analyses of institutions; see Note 48, above.

117. Åslund, *How Russia Became a Market Economy*, 102-36.

118. Thrainn Eggertsson, *Economic Behavior and Institutions* (Cambridge, UK: Cambridge University Press, 1990), 233.

119. For an example of such a model, see Randall Wright, “A Note on Asymmetric and Mixed Strategy Equilibria in the Search-Theoretic Model of Fiat Money,” *Economic Theory* 14, no. 2 (August 1999): 463-71.

120. For a summary from the perspective of the Fund’s leadership, see Michel Camdessus, “Russia: Stabilization and Reform.” Address at the U.S.-Russia Business Council, Washington, D.C., 1 April 1996. From the IMF Web site, [www.imf.org](http://www.imf.org).

121. Unless otherwise referenced, the following account is based on Woodruff, *Money Unmade* (which, however, makes only unsystematic mention of international influences). See also William Tompson, “The Price of Everything and the Value of Nothing? Unravelling the Workings of Russia’s ‘Virtual Economy,’” *Economy and Society* 28, no. 2 (May 1999): 256-80.

122. Woodruff, *Money Unmade*, 123-24; Tompson, “The Price of Everything.”

123. Tompson, “The Price of Everything.”

124. This is not an absurd rationale. In California, for instance, purchasers of used cars must pay sales taxes on at least the Blue Book value of the cars, whatever the reported price of the transaction. Tax rules on charging below costs have recently been relaxed.

125. In fact, it took quite a while for the IMF even to notice the spread of nonmonetary exchange and taxation. By April of 1996, the share of federal tax receipts in nonmonetary form had reached on the order 20 percent and was climbing; nonmonetary receipts were even more prevalent in regional taxation (Woodruff, *Money Unmade*, 169). Yet an authoritative specification of the IMF’s priorities in Russia at that time did not even mention the issue. Camdessus, “Russia: Stabilization and Reform.”

126. John Odling-Smee and Henri Lorie, “The Economic Reform Process in Russia.” International Monetary Fund Working Paper WP/93/55, 1993. David Bigman and Sergio Pereira Leite, “Enterprise Arrears in Russia: Causes and Policy Options.” International Monetary Fund Working Paper WP/93/61, 1993.

127. Compare the Fund’s analysis of an in-kind taxation scheme (disguised as a form of money taxation) as described in Aleksandr Bekker, “Rossiia dolzhna poluchat’ shestoi tranzh kredita MVF,” *Segodnia* (online edition), 21 September 1996.

128. Clifford C. Gaddy and Barry W. Ickes, “Russia’s Virtual Economy,” *Foreign Affairs* (September-October 1998). <http://www.foreignaffairs.org/issues/9809/gaddy.html>.

129. "Memorandum of the Government of the Russian Federation and the Central Bank of the Russian Federation on Economic and Financial Stabilization Policies." 16 July 1998. International Monetary Fund Web site, [www.imf.org](http://www.imf.org).

130. "World Polity," 121.

131. "Historical institutionalism" has yet to achieve an authoritative definition, and the following summary is perforce somewhat tendentious. On my view, the modern texts that have most influenced those inclined to identify themselves as practitioners of historical institutionalism include Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics," *International Organization* 32, no. 4 (Autumn 1978):881-912; Suzanne Berger, "Introduction," in Berger, ed., *Organizing Interests in Western Europe* (Cambridge, UK: Cambridge University Press, 1981), 1-26; and Stephen Krasner, "Approaches to the State: Alternative Conceptions and Historical Dynamics," *Comparative Politics* 16, no. 2 (January 1984): 223-46. My rooting of historical institutionalism in a tradition of developmental social science follows Ira Katznelson, "Structure and Configuration in Comparative Politics," in Mark Irving Lichbach and Alan S. Zuckerman, eds., *Comparative Politics: Rationality, Culture, and Structure* (Cambridge, UK: Cambridge University Press, 1997), 81-112.

132. Gregory M. Luebbert, *Liberalism, Fascism, or Social Democracy* (London: Oxford University Press, 1991) exemplifies this line of thinking.

133. John Zysman, *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca, NY: Cornell University Press, 1983), 289. Zysman makes this statement to introduce a summary of Gerschenkron's position, and does not intend it as an exhaustive statement of his own views. On critical junctures, see Krasner, "Approaches to the State" and Ruth Berins Collier and David Collier, *Shaping the Political Arena* (Princeton, NJ: Princeton University Press, 1992). The formative significance of Gerschenkron for historical institutionalism is especially well analyzed in Gary Herrigel, *Industrial Constructions: The Sources of German Industrial Power* (Cambridge, UK: Cambridge University Press, 1996).

134. For a discussion of this shift from developmentalism, see Katznelson's "Structure and Configuration." The historical institutionalism argument on the interplay of interests and institutions in politics derives from Berger, "Introduction."

135. Paul Pierson, "The Path to European Integration: A Historical Institutional Analysis," *Comparative Political Studies* 29, no. 2 (April 1996): 126.

136. Katznelson, "Structure and Configuration in Comparative Politics," 85, 86.

137. *Ibid.*, 96.

138. Compare *ibid.*, 85.

139. Such as David L. Weimer, ed., *The Political Economy of Property Rights: Institutional Change and Credibility in the Reform of Centrally Planned Economies* (Cambridge, UK: Cambridge University Press, 1997).

140. Compare Herrigel, *Industrial Constructions*, 24.

141. Carl Menger, "On the Origin of Money," *Economic Journal* 2 (June 1893): 239-55.

142. Even if one rejects this Mengerian account of the origins of money, arguing, say, that money arises out of debt relationships rather than as medium of exchange, a similar argument could be constructed.

143. Abolafia, "Self Regulation as Market Maintenance."

144. Weber, *Economy and Society*, 311-38.

145. Compare especially Philip Cerny, "Globalization and the Changing Logic of Collective Action," *International Organization* 49, no. 4 (Autumn 1995): 595-626.

146. North, *Institutions, Institutional Change and Economic Performance*; Collins, "Weber's Last Theory of Capitalism."
147. Karl Marx, *Capital* (New York: Vintage, 1977).
148. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1957).
149. Chaudhry, "Myths of the Market and the Common History of Late Developers"—a seminal non-Gerschenkronian account of late development.
150. Woodruff, *Money Unmade*, 3-4, 6.
151. Chaudhry, "Myths of the Market and the Common History of Late Developers"; Chaudhry and Woodruff, "Political Origins of Market Institutions."
152. Fligstein, "The Transformation of Corporate Control."
153. Chaudhry, "Myths of the Market and the Common History of Late Developers."
154. This seems to have some affinity with Robert Bates, "Macropolitical Economy in the Field of Development," in James E. Alt and Kenneth A. Shepsle, eds., *Perspectives on Positive Political Economy* (Cambridge, UK: Cambridge University Press, 1990), 31-54, which links the creation of institutions to capital's need for stability. For a narrative history of how the switch to FDI affects peripheral countries' relations with international capital, see Jeffrey A. Winters, *Power in Motion: Capital Mobility and the Indonesian State* (Ithaca, NY: Cornell University Press, 1996).
155. Nikolai Ivanovich Bukharin, *The Economic Theory of the Leisure Class* (New York: A. M. Kelley, 1970). The phrase in the text is a more literal translation of the original Russian title, *Politicheskaiia ekonomiiia rent'e*.
156. For a very restrained suggestion that the "primary concern" of Westerners preparing economic laws for Russia might have been "large, Moscow-based institutional investors" (many of whom, before the August 1998 crisis, were foreign), see Hendley, "Legal Development in Post-Soviet Russia," 238. As an example of a more subtle form of link between "base and superstructure," compare how the IMF's executive director sought in 1996 to defend the Fund's record in Russia by citing a rise in international capital flows as a sign that its policies were working. Camdessus, "Address."
157. For an exceptionally perceptive, indeed prophetic, discussion of stock market bubbles in emerging markets, see Paul Krugman, "Dutch Tulips and Emerging Markets," *Foreign Affairs* 74, no. 4 (July-August 1995): 28-44.
158. For another example of coexistence between a stock market bubble and extremely weak legal control over corporate governance, see Andy Ho, "Privatized Statism and Ethnic Capitalism in Malaysia." Ph.D. dissertation, Massachusetts Institute of Technology, 1999. For a Brazilian example of a switch to alternative means of payment for wage debts coexisting with a strong exchange rate and low inflation, see Diana Jean Schemo, "In a Straitened Brazil, Talk of Pay in Goods," *New York Times* 22 October 1998, 4.
159. Analysis of the links between state building and prior forms of capital flows is given in Kiren Aziz Chaudhry, *The Price of Wealth: Economies and Institutions in the Middle East* (Ithaca, NY: Cornell University Press, 1997).
160. David M. Woodruff, "Why Market Liberalism and the Ruble's Value Are Sinking Together," *East European Constitutional Review* 7, no. 4 (Fall 1998): 73-76.
161. Woodruff, *Money Unmade*, 187-90.
162. Compare Hendley, "Legal Development in Post-Soviet Russia," 236, who notes that Russian business legislation "has been created in a top-down fashion," unlike the evolutionary emergence of business law she finds in the works of Weber and North.
163. Vadim V. Volkov, "Silovoe predprinimatel'stvo v sovremennoi Rossii" (Violent entrepreneurs in contemporary Russia), *Sotsiologicheskie issledovaniia*, no. 1 (January 1999): 56-65.

164. Woodruff, *Money Unmade*, 158-61. In general, it seems worth investigating the hypothesis that the national governments of many less-developed countries may face challenges from subnational governments that use their greater distance from the forces promoting international isomorphism to manage processes of spontaneous evolution of social abstraction denied legitimate formulation on the national level. In this regard, it is very telling that a Russian program to stamp out local alternate monies using a mixture of carrots and sticks was described as involving the transformation of the federal authorities into an "internal IMF." See for example "Regiony zaimutsia ozdorovleniem finansov," *Delovoi Ekspress* 18 August 1998.

165. David S. Landes, *Bankers and Pashas: International Finance and Economic Imperialism in Egypt* (New York: Harper Torchbook, 1969).

166. The more delicate vocabulary of "moral hazard" became the center of the debate emerging from the financial crisis of 1997-98 over whether institutions such as a "credible commitment to fixed exchange rates" or establishment of a "lender of last resort" might encourage investors to commit funds at lucrative, not to say usurious, emerging-market rates in expectation that they would not be permitted to bear losses. Of course, this debate also demonstrated that the vocabulary and analytical resources of the NIE were not the sole property of those who would make them a cover for exploitation of impoverished economies, and perhaps will launch a reconsideration of the game-theoretic vision of society presently dominant in world culture.