

## Institutional Relations Social Organizations

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**Abstract:** The development of modern civilization is characterized by economic space expansion, defined as the social sector, where market mechanisms do not function or do not function efficiently. Therefore an active state participation is required. This participation is aimed at economic balance between demand and supply of public goods. In Russia 60% of GDP is presented by service sector, including the social sector, which is owned mainly by the state. At that the management of this sector is not based on dirigisme but on market mechanisms. The article presents the main results of the historical analysis of economic schools development, dealing with social problems. The need of an institutional base for social management using a systematic approach is substantiated on the basis of comparative analysis. The results of systematic approach implementation propose a social structure in Russia, define the basic institutional relations, some characteristics and the patterns of its development.

**Key words:** Institutionalism • Organizations • Social services • Patterns of development

### INTRODUCTION

During 1980-1990 the USSR experienced the decreased efficiency of the state management since the beginning of complications and increased dynamic macroeconomic parameters of functioning. And the collapse of government attempts to suppress stagflation developed nihilism in regard to the administrative state regulation (including macro-planning). This nihilism spread and became a nutrient medium for radical liberalism dominance. At that economic liberalism affected the social sphere, which can not be operated on the basis of classical and neoclassical economic theories due to objective reasons. The visual confirmation of this fact reveals in the dramatic decline of social services quality in modern Russia and in the gradual escalation of social discontent with high economic freedom in the social sector, leading to public goods availability decrease [1, 2, 3].

Main study results. The historical analysis of economic views concerning the public sector makes us conclude that Russia is a country that denied global experience, passed the stage of "mixed" economy and dramatically shifted to the Neoclassical platform which still has some influence.

As a result, the USSR social sector, which had a strong, sectoral and ideological base of social development was systematically destructed.

First the necessity of the social sector special study was cognized by J.S. Mill, who noted that the nature of some goods requires public observation. The protection of person interests and property was considered by J.S. Mill as an essential state function. This statement helped to justify the expansion of state influence of the on market economics which is associated with its activities concerning public goods provision or coercion of market participants to their production. The works of the historical school members in Germany (W. Roscher, B. Hildebrand, K. Knis, G. Schmoller, A. Geld) define the economics as a set of two sectors - the public and private one. At that the role of the first sector was not diminished, but, on the contrary, it was considered as important for economic development as the market one [4]. The next important step in the elaboration of the social development theory was the justification of prices and tariffs mechanism formation based on marginal costs [5]. The rule of "rough consensus" was the basis for Pareto model construction which provides an efficient solution of public goods problem. According to the principle formulated by E. Lindahl, the individual share in public

good financing (the "tax price" of the public good marginal unit) must comply with the marginal utility of the public good for this individual [6]. The further development of scientific knowledge led to the formulation of "voting paradox" or "Condorcet paradox" that occurs when the decision about choosing between different public goods is taken [7]. Along with the models of public goods provision within a direct democracy and the framework of public choice theory the mechanisms of representative democracy are analyzed that overcome significant costs associated with decision-making in large groups during the process of preferences revelation. In this regard, the economic views of E. Downs (median voter theorem), G. Buchanan (constitutional choice theory), William Nordhaus (political theory of business cycle), George Stigler and C. Pilszmen (theory of endogenous determination of economic policy) are of particular interest. These traditions were continued as a part of the social choice theory by K. Arrow, who considers aggregate individual preferences in the process of economic decision choices concerning the matters of public concern. According to this model, special attention is paid to such conditions analysis under which the market equilibrium would not be optimal by Pareto criterion and there is an attempt to identify the scope of state intervention in order to optimize these conditions.

Thus, we can say that the social sector is an area of economic space, where: 1) the market is not functioning or is only partially operates and hence the non-market way of economic activity coordination and the non-market type of activity exchange dominate; 2) private and public goods are produced distributed and consumed; and 3) economic balance between supply and demand of public (collective) benefits is provided by the state, local authorities and voluntary community organizations with the appropriate social institutions and primarily through fiscal policy; 4) the activities are directly aimed at the individual formation (including the development and support); 5) the activity is performed in two forms: the services provided by particular individuals or the assistance provision in cash and by goods; 6) from the state point of view this activity generates externalities (a definite influence of activity results on the entities that are not related to the considered activity: they do not take part in it and do not provide it with resources) as positive social effects [8,9].

On the basis of the formulated social sector characteristics, we may determine the incorrectness of neoclassical economic approaches to the management of its development.

- The neoclassical model determines organization as a product of mankind technological progress, as an obligatory condition for the labor productivity growth and the society well-being development. At that, the growth of markets contributes and stimulates an organization growth. The behavior of economic agents is aimed at the optimal usefulness which is aimed at optimal profit. The volume of horizontal interactions is defined by positive scale effect, i.e. by costs subadditivity. The costs are subadditive, if during the release of goods within a single company, such costs are smaller than at its production within the boundaries of many firms. The volume of vertical interactions is also determined by the subadditivity of costs. The choice in favor of its own production during the successive stages of processing instead of buying a product at the market will be positive if the total goods production costs are less than standard product purchase. Thus, vertical dimensions of a firm are growing due to the vertical interactions. Therefore, the amount of horizontal and vertical interactions in neoclassical economic theory is determined by subadditive costs. It is also important to note that the costs of production and social service provision by companies will not be subadditive, so a wide range of social services necessary for Russian consumers requires the functioning of social organizations of various types at the macro level of the system and the organization of various social services provision corresponding to the profile at the micro level.

That is, it is impossible to form a complete cycle of the service provision within a single organization. A lot of related works will be carried out by related organizations.

- Neoclassical model provides no place for economics macro-planning. If it still allows take into account taxes or monetary regulators, the coordination of economic subjects through the preparation and execution of national economics development plan is entirely superfluous in the situation of balance. If a plan is defined as a search procedure of such a balance, this procedure can not deform the decision-making processes at micro and macro level. Economic subjects taking part in a planned process are forced to share information, given that their exchange partners and third parties may use it for their own purposes and contrary to the interests of the abovementioned participants. In this situation,

the planned information is considered by all participants as a managing influence and distorted in its own interests; there is a problem of its reliability and plan performance stimulation.

- According to the key assumption of neoclassical theory, the economic system has such a trajectory of development in which all economic subjects reach their maximum degree of its interests realization at such actions of other subjects. It is clear that each subject satisfies its needs at different balances in various degrees or receives unequal income; therefore, the problem of balance selection arises. Actually subjects may try to choose the strategies of behavior ignoring the interests of other subjects. Thus the welfare of all may deteriorate compared to any of balances. In a nutshell, if there is no mechanism subject actions coordination then there are no guarantees of any balance trajectories achievement. Particularly there are no such guarantees, as long as certain conditions generate periodic fluctuations and random fluctuations of economics. In general, even if the market balance exists, the probability of its implementation is extremely small; moreover, there are forces carving it out of balance and generating oscillatory processes due to the cyclical development of the market economics.
- The neoclassical model ignores the production of "public goods" or social services consumed by all citizens. These are the public goods presented by information and technologies that can be infinitely replicated at low costs, as well as the provision of constitutional rights for citizens concerning free education and medical treatment, safety and life and others. According to the large groups theory the agents of contractual relations in the social sphere tend to receive public goods that will benefit all group members that is the fundamental cause of this economics sector establishment and separation. As the agents of contractual relations in the social sphere as the members of a large group rationally seek the optimization of individual welfare, they do not make efforts to achieve common group goals as long as they are not pressured in the form of institutional control, or each of them is offered an individual motive for such an action, which coincides with the general interest of the group and implemented on the condition that the members of the group will take the part of the costs to achieve a common goal.

Thus, the classical economic theory considers the coordination and interaction of market subjects in the form of material and cash flows. Communicative interactions are not the subject of study, since they do not "fit" into a set of basic postulates of this theoretical construct that is a critical omission for the dynamic development of services. In this regard, we believe that the paradigm, which is associated with neoclassicism and marginalism, despite its obvious achievements, is close to exhaustion of its potential and manifested in methodological discussions enhancement, forming an expectation that fundamentally new ideas and approaches that determine the development of economic science in the XXI century shall appear. And, in our opinion, the neo-institutional economics theory is a theoretical construct that takes into account institutional interactions in the social sphere along with the abovementioned interactions.

In this regard, the consideration of social sphere organizations from institutionalism position is rather interesting. The social sector acts as a set of industries and organizations carrying out the general objective function of population needs meeting, which are combined by the system of technological relations regulated by sectoral authorities. As an integral part of the public sector, social sphere content is not exhausted. Social sphere includes a group of national economy branches, producing services for the life support of state population that has its own culture of labor, family, everyday life and leisure activity with the usual level and lifestyle, psychology and values. This group of industries is combined in the complex of social economy and includes education, culture, public health, housing, utilities, health resort, health-improving and tourist complexes, physical activity and sport. Social economy is revealed in the national economics structure not by its technical and technological features, not by the place of productive labor cooperation but by the purpose of produced services. Its mission is to meet the needs of employment, socio-economic activity and spiritual culture [10].

Using the Russian State Standard Resolution of 06.11.2001, No 454-st "About OKVED adoption and implementation" we formed conventional groups of social sphere organizations belonging to different sectors of economics: education; arts and culture; healthcare; recreation; tourism; physical culture and sports; science and innovations; housing; utilities and other sectors (Table 1).

Table 1: Some typical trends of SSO administrative activity

Management functions				
SSO types	Planning	Organization	Motivation	Control
Education	- Long-term operation provision	- Targeted funds obtaining	- Administrative impact	- Retrospective analysis of work
Arts and culture	- Justification of resource consumption level	- Focusing on consumption and production standards	- Moral satisfaction of employees	- Evaluation of deviation effectiveness
Healthcare	- Deferred activity effect	- Compensation of unprofitable service costs	- Personal conviction of employees	- External control use
Recreation	- Population life quality improvement	- Distribution of job duties on the basis of established "traditions"	- Provision of employment guarantees	- Provision of control measures private implementation
Tourism	- Provision of social services for consumers			
Physical culture and sports	- Focus on a wide range of consumers			
Science and innovations				
Housing				
Utilities				

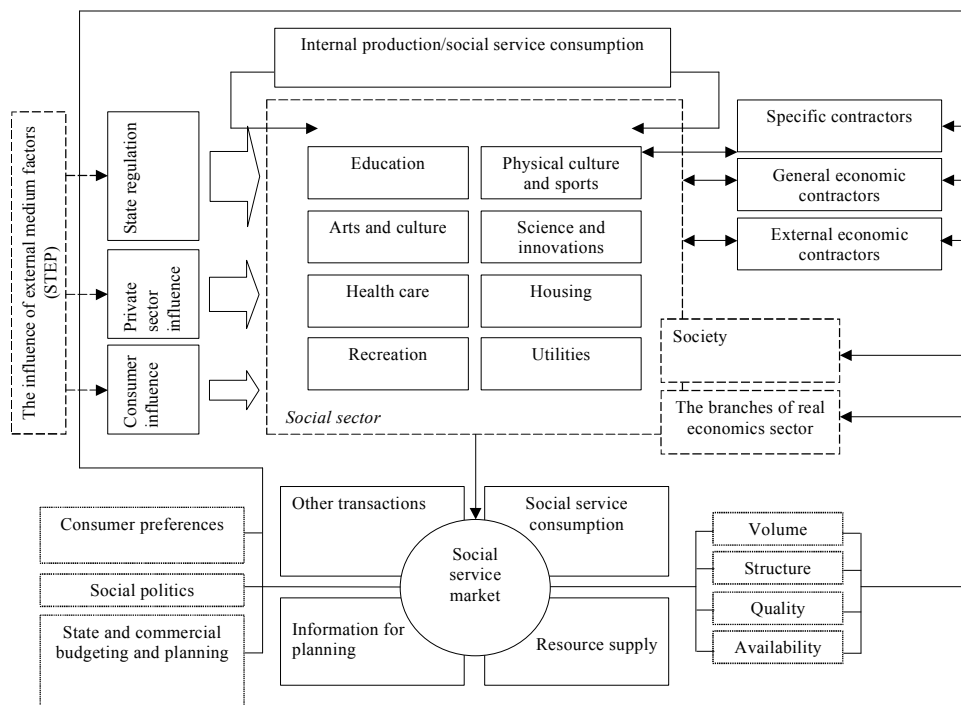


Fig. 1: Diagram: Institutional relations of social sphere

We developed the diagram of the major institutional relations representing the social sphere as an open system (Fig. 1). As with any open system, it has the subjects of the external environment. Among such subjects we highlight the general economic counterparties participating in the work of all social institutions, such as energy suppliers, the mass media, government statistic authorities and specific contractors involved in the production process of only one subsystem. For example, they are the manufacturers of medical oxygen for health care and they are restoration workshops for culture and arts.

We also specifically highlight foreign contractors, as the social sphere of a state has been a traditionally attractive area for the implementation of destructive or constructive effects of other interested countries. However, analyzing the proportion of social organizations owned by the state, which was mentioned in the first chapter and will be discussed later, it can be stated that the influence of Russian business representatives is undeniably less than the state one. In this regard, we may state that the citizens who are the main consumers of social services, have the least impact on its functioning as they are not involved directly in the financing of and

interact with the social sphere according to the rules (standards) defined by the state. These limitations are caused by the lack of market mechanisms in the sector and therefore by the lack of desire for "rational" consumption among citizens. The state "dictate" provides the problem of volume, structure, quality and accessibility of social services, as the social impact assessment, as well as its importance can not be determined objectively without taking into account socio-cultural characteristics of the state. Therefore there are different perceptions by periods and territories about the positive social effects and the ways of their creation. So the social sphere structure differs significantly on different territories. In particular, there are very different estimates on the possible social effects in respect of some steps for education modernization implemented in Russia. Then the natural product support carried out by some municipalities to assist certain categories of low-income citizens, according to some experts, can not lead to positive social effects due to the insignificance of this assistance. Accordingly, in order to classify an activity to the social sphere the positive sign of generated social effect should be institutionally recognized. The possible subjects of such recognition may be the public authorities, which form an integral estimate of the social effect, mediating and coordinating individual assessments of citizens and social groups of a definite territory.

Besides, the diagram illustrates that social services are characterized by a variety of customers of the same service as well as by customer and consumer positions mismatch in one subject. At that the presence of many customers (other customers besides the actual service consumer) on a number of social services is explained by completely objective circumstances. The plurality of customers leads to the existence of an extensive volume of requests to the manufacturer of the corresponding services. At that these requests reflect the positions of essentially different subjects by its institutional nature (individuals - service consumers, private persons who are not consumers, state and municipal authorities, public organizations, private enterprises, etc.). This leads to the fact that the requests for subject data are often contradictory ones. In particular, service provision companies need to carry out the order of the state (to perform educational standard, the standard of care, the standard of social services) and also meet a variety of customer expectations from various segments of the relevant market (represented as consumer preferences) and also meet the requirements of social effect recipients. In this situation, the service provider has to perform complicated work on the accordance of these requests,

transform them in the order, specifying the characteristics of conditions, process and service provision results. In the current situation at the areas of education, healthcare, culture, mass physical culture and sports, social service the state (municipal) authorities formulate an order for consumers, customers and other beneficiaries. Thus, the state and municipal regulations establish state guarantees of direct consumers to obtain education, healthcare, culture, mass physical culture and sports, social services (the provision of these services for free or at prices that are not economically significant, is provided by fixing the rules in regulation budget funding for service production), as well as the responsibility of direct service providers responsible for its quality.

Having considered the institutional relations, we can formulate the basic social sphere patterns:

- There is a direct relation between quantitative and qualitative characteristics of social services and the degree of state involvement in their production and there is an opposite relation between these characteristics and the degree of consumer participation.
- Economic subjects of social sphere bearing the most costs at social service production consume the least amount of such services.
- There is no statistical relationship between the consumed resources and the volume, structure, quality and social service access.
- STEP factors do not directly affect the social sphere.
- Social organizations are one of the main social service consumers.
- The customers of different subjects lead to a distorted view of social service quality, which is formed by the state and recognized by social majority.
- Social sphere has easily detectable "responsibility centers" determining the effectiveness of its development.

## CONCLUSIONS

Basing on the study of the institutionalism essence, we can conclude that the desire to limit the economic importance of state by support functions performance under the "invisible hand" rule in the social sphere is not correct, since the state functions in the modern economics are much deeper and more varied and the structure and principles of the social sector functioning is much more complex than market economics structure.

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