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MARKET EXPERIMENT
IN
THE HOUSING ECONOMY
OF RUSSIA

**The Siberian Branch of Russian Academy of Science
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The results of the reform in the housing economy of Russia and its regularities are presented in this book. The analysis of privatization of the state housing and its transfer for the maintenance to private management companies is made. The economic-sociological monitoring conducted in a typical Russian city, Novosibirsk, provided the basis for conclusions about the nature of changes that are taking place. The logic of the processes of transformation is explained on the basis of the theory of razdatok-economy, a new theory of the institutional development of Russia.

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Preface

At the turn of the second millennium, attention of the whole world is once again drawn to the processes of economic development in Russia. The possibilities for the global sustainable development are determined to a large extent by the direction in which the transformation in this country will go. The main collision was connected with the question of Russia becoming a country with either market or non-market economy. However the choice of the way is determined not by the will of people but by the regularities of the institutional development of the Russian economy which have not been completely perceived so far.

In this book Russian economy is presented in a new way, as a progressive economy of the razdatok type. The basic laws and institutions of the Russian economy had been formed and perfected during its whole history. Periods of sustainable development gave way to the periods of institutional changes. In these periods a renewal of the out-dated institutions of the razdatok-economy took place through the introduction and adjustment of new elements developed by the modern civilization.

The period of institutional changes of the 1990s represents a market experiment in the razdatok-economy of Russia. In this period numerous Demonstration projects were conducted in the country. Their goal was to work through the market economic methods. The results of four years of the economic-sociological monitoring are presented in this book.

According to the authors' point of view, the market transformation in Russia will result in the renewal of the institutional system of the razdatok-economy. It will make it possible for Russia to occupy a prominent place in the world community. At the same time, ways for effective economic development will be found as well as combinations of collective values that will permit developing human potential of every individual.

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At the same time, conclusions, concerning the results of the market experiment and the role it played, presented in this book, reflect solely the point of view of the authors and are based on theoretical and methodological propositions developed by them.

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Chapter 1

The Institutional Development of Russia: Grounds of the Theory

Over the last 100 years numerous attempts were made to explain the processes of the development of Russian economy with the help of foreign theories that proved to be unsuccessful. Russia needs its own theory of the institutional development, the one explaining the logic of social processes and changes that are taking place. This theory can be formulated only with the recognition of the objective character of Russian economic and social relationships.

The basic propositions of a new theory of the institutional development of Russia are presented in Chapter 1. From the point of view of this theory, Russian economic system represents a progressively developing razdatok-economy going through a period of institutional renewal in the 1990s.

§1. Razdatok-Economy Institutions: Historical Analysis

Modern economy in Russia is a logical result of the evolutionary development of economic relations. Specific features of these economic relations, which were formed at initial stages in the history of the Russian state, were conditioned by the features of the environment and the methods of its development.

The reasons that didn't allow the development of a market economy in Russia are well-known. Historic literature has accumulated considerable evidence of impassable roads, enormous distances, and severe climate. The general conclusion about undeveloped market relations in Russia was drawn from the fact that "loss at exchange would exceed profit".¹ Under these circumstances, attention to individual gain at exchanges and in trading could not serve as the basis for economic relations as was usual in the development of a market economy.

In conditions of low fertility of cultivated lands, emergence of a *razdatok-economy* system (<Russ *razdavati*, to give) helped the ancient Russian state to survive. Over its centuries-old history, *razdatok-economy* provided for the restoration of the land and replenishment of other natural resources, these being the sources of public wealth.

Economic institutions unique only to the *razdatok-economy* system have been established in the course of its evolution. They secured the basic relationship between the people involved in the process of developing the new lands and the management of the economy.

A service-labor system was the basis for the *razdatok-economy*. It defined the rules of economic activity for all the members of the society who were involved in using the public resources.

Under a service-labor system, any kind of public labor, either productive, managerial, military, or any other acquired features of service-labor. It was obligatory in character and predetermined by conditions independent of any man. It meant fulfilling certain functions defined by the society. For Russia, a service-labor system meant that the state assigned certain obligations to all layers of society. Schematically these obligations were divided into two main types. Some had to be in service (economic or military), all others had to feed those who served. Thus, the service-labor system embraced all the population of the Russian state.

In the X century the first Russian grand dukes had to serve the tribes which called upon them; namely, they had to protect Russian land and acquire more land for Russia. In response, the Slavonic tribes committed themselves to the payment of tribute to provide for the grand duke and his armed force; if necessary, they were ready to serve in the armed forces themselves. Over the whole history of Russian society, the service-labor system maintained this distribution of duties. The service class and the tribute-paying population of the Russian Empire have been replaced today by the state employees and workers-and-peasants class.

Thus, the service-labor system in Russia embraced all the population, from the Emperor and landlords to the peasants and workers. From the very beginning, the service-labor system implied the idea of serving; and this idea was always shared by the majority of

¹ F. Braudel, *Vremya Mira* (Moscow: Progress Publishers, 1992), vol. 3, p. 19 (in Russian).

the Russian population. At the same time, the content of this common idea was different and changing at different stages of historic development - from Christianity to communism, from 1917-1985.

Service-labor meant that all the layers of the society put forth their labor efforts in various forms in the volume required. To perform their service all the members of the society, in their turn, received the right to use a particular part of the public resources; first in the grand duke's possession, then in the Emperor's, and finally in the state's possession.

Starting in the XI century, land was actively used by the grand dukes to enlist people into their service. From the XIV century, the connection between land and service became indistinguishable. Gradually, the rule that "the one who serves uses land" acquired the reverse side, i.e., "the one who uses land serves". This principle made Russian Emperors broaden the state borders with new land grants. Russian land of that period became both the condition and the goal of service, acquiring to the full a service nature. By the XVII century, the property was differentiated according to the rights the land possessors received with the land grants. The property was subdivided into fixed-date, estate, and allodial patrimonial lands. Fixed-date lands were apportioned for a certain period of time. Estate lands were given for life-time possession. Allodial patrimonial lands were heritable and could be either bought or sold. During the soviet period in Russian history not only land but also almost all public resources, such as factories, housing, communications, and the social sphere acquired a service nature and could not be alienated from the state into the possession of private citizens. Thus, state property with a public-service nature was formed on the territory of Russia. Centralized production systems were increasingly used to develop the territories. They helped to finally shape the communal nature of the material-technological environment.

Thus, throughout Russian history, the property of citizens and economic entities was formed as a result of *razdacha* (Russian *razdacha* giving) or distribution in the form of *grants*, *Emperor's rewards*, etc. In the past, along with *land distribution*, there also existed *bread distribution* and *money distribution*.

The rules and norms of distribution have been formed during the whole history of the formation of the Russian economic system. In the early period, distribution manifested itself in the form of a donation to the duke's armed forces who received their food, clothes, horses and arms from the duke. Later, in the XIII-XV centuries, land became the principle object of distribution. The principles of the first land distribution had been worked out on the basis of two criteria. According to the first of them, for example, a duke's heirs could only have possessed the land formerly in the possession of their father. The second rule was stated in the chronicle: "land possession was conditioned by the status of a person on the patrimonial scale of rank". These two conditions were combined and formed the first historical name for land possession, namely *votchina* (< Russ *vot-* father + *-china* rank), ancestral lands. *Votchina* is property received according to the genealogical rank passed from the father to the son.

From the second half of the XV century, the rules for land distribution for possession were formed. As the great Russian historian of the

XIX century, V. Klyuchevsky formulated, the amount of distribution also began to be dependent on the term and quality of service.² It could be seen from this formula that complex principles were formed in the razdatok-economy system to provide for its inner development and balancing. By the end of the XVIII century, when job promotion was mostly determined by the term in service, the land distribution formula became distribution only according to rank.

During the early soviet period, the normative basis for distribution in kind, i.e., in the form of goods, housing, and social services was formed. The wage scale for salary distribution was also formulated then: now the amount of goods and money distribution corresponded to the official position of employees. Thus, the rule of distribution worked out at the early stages of Russian economic evolution: “to everyone according to his rank,” has not lost its universal nature in Russia and is the indispensable principle of the razdatok-economy system.

The rules of tribute (Russian *sdacha* handing over) in the system of public-service ownership were formed concurrent with the elaboration of the rules of distribution. Tributes formed the basis for the treasury income, first for a duke, then for an Emperor and later for the state. It is both the source for the operation of state services and for financing general economic expenses.

From the very beginning of the existence of the treasury in Russia, it was mainly formed from tribute. Its essence was a voluntary or compulsory tribute of foodstuffs or labor. When dukes came into power, the Slavonic tribes gave them honey, furs and wax as well as fulfilled various conscription.

During the XIII-XV centuries, a specific form of production tribute, “*kormlenye*” appeared. Periodically, regional officials collected meat, baked bread, and hay from people in their localities. A share of the collected tribute was sent to the treasury for the benefit of the dukes and central governors. During the period of reforms of the local government system introduced by Ivan The Terrible, *kormlenye* was first standardized, and then later replaced by state *obrok*³. Up until the end of the XIX century, the Russian population was liable for different *obroks*. They were so various in form and content that their natures were a constant source for discussions. Having analyzed the essence of the discussions, P. Miluykov formulated their general feature: “*obrok* is a tribute on the land”⁴ collected for the right to use the land.

At different stages of reforms in the razdatok-economy of Russia, an adequate way to measure the part of the product produced to be given as tribute was sought. The reformers at any period in history were governed by the same main principle, namely, by a general levying of the population in proportion to the abilities of each and everyone in accordance with the

² V. Klyuchevsky, *A Course in Russian History*, vols. 9 (Moscow: Mysl, 1990), vol. 2, p. 210 (in Russian).

³ *Obrok* payment in kind of a part of the annual peasant income, was one of the relatively easy forms of peasant duties, for details see B. Rybakov, *Kievan Rus* (Moscow: Progress Publishers, 1989), p. 195.

⁴ P. Miluykov, *Russian State Economy in the First Quarter of the XVIII century. The Reform of Peter the Great* (S.-Petersburg: Balashov's Publishing House, 1892), p.45 (in Russian).

public needs. Up until the XIX century these abilities, as a rule, were determined by the size of the distributed land allotment and the number of family members capable of work. The mechanism of reallocation through the Russian peasant community, for example, was used to adjust the volume of tribute paid by peasants under changing conditions. Analyzing the essence of the peasant community, V. Klyuchevsky understood it as a financial mechanism exclusively, where community land was distributed in proportion to the working and tribute ability of peasants. That is, land was distributed among the homesteads according to the number of working people and it was compulsory.⁵

The productive population of the Russia Empire from the point of view of the treasury had to give tributes in return for distribution. What this meant was that everyone had to give a part of what was produced according to the distributed production conditions, i.e., according to what had been given. The planned soviet economy of the XX century was always controlled so that the production and tribute of goods to the state was proportionate to the distributed resources, both fixed and current assets, available to the primary economic organization. In other words, the same principle of tribute was observed in the planned economy; and it could be explained by the inner logic of the *razdatok*-economy.

In the course of spontaneous evolution, the principle of tribute and distribution relations has been worked out in the *razdatok*-economy system. This principle is: “from everyone according to what had been given, to everyone according to his rank.” This relationship should have provided for the effective functioning of public-service ownership because it was assumed, first, that performance of every function would be adequately rewarded, and secondly, that these functions would be performed with the required public benefit. That is why the development of distribution systems is only possible if the *law of correspondence between tribute and distribution* is observed.

The logic of this law suggests that if the amount of distribution to any branch or territory exceeded the standard level, then there would be a particularly strong desire to go to this place. These circumstances were always used by the Russian government both for the development of new lands and new branches of industry. Thus, in the XVI century, the settling on the monastic lands went on much more successfully as land grants were combined with generous privileges. The practices of the Soviet power are also widely well-known. The population was involved in the development of new lands by increasing the money and material distribution there, in comparison to the standard level elsewhere.

The functioning of the law of tribute and distribution during the whole period of development of Russia also manifested itself in a search for an effective ratio between the two groups of population: those who were in service and those who had to feed those who served. In modern history it means a search for an effective ratio between the administrative and production workers. Thus, the law of tribute and distribution works both for all the economic entities and the employed workers.

Money and prices are the immanent attributes of the *razdatok*-economy that serve the tribute and distribution relations. However, money here has origins and nature different from that in a market economy.

⁵ V. Klyuchevsky, *A Course in Russian History*, 9 vols. (Moscow: Mysl, 1990), vol. 3, pp.212-215 (in Russian).

The word “money” (Russian *dengi*) came from the Tatar language under the Tatar-Mongol yoke. It described everything that the conquered Slav tribes had to give as tribute. But even after their liberation, the term “*dengi*” was used in Russian finance as a synonym for “tribute”. Money was used both in tribute and distribution flows. *Money distribution* was quite broadly used; it was distributed according to the rank, land estate, character and the term of service.

Although, with the development of the Russian state, money started playing a more and more notable role, the tribute and distribution flows in the XVI-XIX centuries were predominantly in kind. By the XX century, the razdatok-economy system acquired mixed goods and money character as money distribution became a considerable addition to the distribution of goods. During the Soviet period, distributions in kind to the population took the form of free housing, medical services, education, etc. Organizations received distribution in kind, i.e., in the form of industrial buildings, land sites and fixed assets.

The tribute and distribution flows were regulated by establishing the scale of prices. They helped to alter the distribution of resources in favor of this or that farm or territory, for example. It was first practiced by the Moscovy state in the XVII century. At that time, a double scale of prices was introduced for bread delivered to the treasury. The first scale was tribute price and the second was distribution price. Soviet pricing was also based on two types of prices. First, tribute prices, the prices at which the state bought the production, and second, distribution prices, the prices at which the production was distributed. Thus, in the course of economic evolution, the razdatok-economy system started using money as an economic instrument, i.e., tribute-distribution flows in kind were being replaced. At the same time, prices became a measure of tribute and distribution.

In the historical development of tribute and distribution relations, three stages can be distinguished in the degrees of public labor division and economy localization (within the framework of separate peasant homesteads, within a large estate or within the state economy as a whole).

At the first stage, part of the production in Old Russia was given to the dukes in form of tribute with no changes in the process of community or family production. Traditionally, the process was organized and managed by the clan elders. An elected elder was in charge of employment, kept the public treasury, paid duties, distributed food and clothing, and punished wrong doings. At the second stage, during estate-land tenure, all land and part of production means i.e., livestock, sowing seeds, were distributed step-by-step from the Emperor to the landlords, and then from the landlords to the peasants. There were two flows of tribute from the producer: one flow to the state treasury in the form of tribute and labor conscription, another one to the landlord. At the third stage, under the conditions of a unified state razdatok-economy, all goods produced are tributed to the state and all production means and articles of consumption are distributed either in kind, or in monetary form. It is the case of the most complete labor division together with the dominance of state provision.

Each stage in the development of the razdatok-economy had its own *mechanism of balancing tribute and distribution*. It manifested itself in the main economic document of that time. At the first stage, the rules of tribute collection were defined in the duke’s deed. At the second stage, tribute and distribution flows were coordinated at two levels, at the state level with the help of a state roster, and locally with the help of special “tribute and

distribution books” which were kept by every landlord and cloister. At the third stage, the state plan became the unified state “book” of tribute and distribution.

In defining the Russian economic system as razdatok-economy, the diversity of economic relations should not be oversimplified. In the course of Russian history, relations other than razdatok-economy existed and developed as well. In a broad sense, non-distribution relations are really distribution exchanges, i.e., exchanges of what was received in distribution, or exchanges of what was produced with distributed production means. Exchange relations of this type are often looked at as market relations, though their nature differs fundamentally.

Interaction between distribution and non-distribution relations takes place in different forms: conflict, shadow, and partner. In the XVI century, for example, the government stimulated the development of bread trade by partially replacing tribute in kind with money tribute. Likewise, by giving the right to buy and sell estates, it created possibilities for land allotment trade. In XVIII-XIX centuries estate exchanges with money additions were widely spread. Housing exchanges in the sphere of state housing are today’s analog to the relations of that time. But non-distributive relations only served to maintain a certain balance in the razdatok-economy system.

The mechanisms of the operation of the razdatok-economy conditioned the specific features of its management bodies which began to form in the early stages of Russian history. These management bodies were called *vedomstvo*.⁶ Russian *vedomstvos* existed all the way from the duke’s period, to Ivan the Terrible, Peter the Great, and to the ministries of the Soviet period. The logic of spontaneous emergence of new *vedomstvos* clearly illustrates how, with changes in Russian borders and the expansion of its foreign and domestic goals, new ministries grew and developed. It made it possible to structure the complicated economic reality of the razdatok-economy.

This form of organization demanded a certain order in the coordination of the functions in each *vedomstvo* and gave birth to a managerial hierarchy. Each hierarchical level had its own set of duties and responsibilities. Managerial function was performed by different classes of society at different historical stages. During the duke’s period this function was performed by the *boyars* or duke’s officials. They were guided in their activity by a special list which defined the nobility of the clan and the rank within the clan. By the XVIII century, the *boyars* were replaced by the *dvoryane*, nobility. The *Table of Ranks* determined which posts they could occupy. During the Soviet period, the position of bureaucrats were determined according to the name on their roster, *nomenclatura*. This roster was a list as well and was approved at the top management level.

⁶ *Vedomstvo* (< Russ *vedat* know) is a branch, a part of the state management making up the whole, a range of subordination and activities (V. Dal, *An Explanatory Dictionary of the Great Russian Language*, vol. 1, p.329). On the eve of perestroika, modern *vedomstvos* included ministries together with trusts and enterprises subordinated to them. Thus before the market reforms, the enterprises in Russia belonged to a particular *vedomstvo* and were subordinated to the middle-management level, trust, which, in its turn, was supervised by the ministry.

Vedomstvos and the managerial hierarchy were indispensable to the management model characteristic of Russian *razdatok*-economy at all the stages of its historic development.

Complaints, being the most widely spread and active reaction to the incompatibility of tribute and distribution flows and the defects in the managerial system, played the role of feedback. If it is possible to get something only by distribution in the system, it means that there is a necessity to ask for it, i.e., to complain. This was exactly how the Russian population acted when it was not satisfied with a particular situation. Petitions and complaints were so commonly used during the whole history of Russia that they can serve as one of the most important historic documents of any period. Over the whole period of development of the Russian state, the feedback mechanisms typical of the Russian economic system were being perfected. The most adequate methods to inform about deviations from the norm were being looked for and found. This mechanism took the form of complaints made by all layers of society and from all the management levels.

Even the first Russian dukes with their armed forces went to the tribes subordinated to them to “carry out their duties to the population”, as S. Soloviov, a great Russian historian of the XIV century, put it.⁷ In response to the complaints of his subjects, a duke would administer justice, mete out punishment, and alter the amount of tribute. At a period when *kormlenye* existed, the order of official responsibility for complaints was worked out. There is historical evidence attesting to the fact that when the term of a local governor in office expired, people who had suffered from him could complain about his wrong doings. As a result, many local governors who lost the suit also lost not only their property but also their hereditary property to pay for the plaintiff’s loses and court fines.

At *zemsky* councils of the XVII century, complaints took the form of reports of petitioners’ representatives “about different needs of the brotherhood”. A special department, *reketmeysterstvo*, dealing with petitions and complaints, was established during the reign of Peter the Great. The right to complain was granted or taken away in the same way as with property tributes. Thus, during the reign of Catherine II, serfs’ right to complain against their landlord was canceled by a special verdict.

During the Soviet period of *razdatok*-economy, complaints remained the main signaling element. Any complaint incorporates three basic components. These are: dissatisfaction with the situation, its substantiation, and a request to resolve it. Thus the whole complex of complaints at any given period gives a complete picture of the problems in any particular branch of the economy. For example, in the 1960s, while industry was developing relatively successfully, the housing and social spheres were lagging behind. Eventually the flow of complaints helped to initiate the housing reform.

The Soviet economy developed the mechanism of complaint consideration and resolution to perfection. Every individual and economic executive manager had the right to complain, but not every complaint served as a guide to action. A critical mass of complaints at every hierarchical level was necessary for them to be considered at the next level. The higher the rank of the person who complained, the greater the

⁷ S. Soloviov, *The History of Russia from the Ancient Times*, 18 vols. (Moscow: Mysl, 1988), vol. 1, p. 215 (in Russian).

authority the complaint had. The situation could be easily explained. The higher the level of management hierarchy, the greater the number of economic units that needed coordination of their tribute and distribution flows. The order of priority and the quantity of resources allocated to resolve any particular complaint depended on the weight it gained. The quantity of complaints served as an indicator of balance in the system as a whole and at its levels in particular. Their minimization was the criterion of effectiveness of a manager's activities in razdatok-economy.

Thus, complaints appear to be not only a phenomenon of common culture of the people but also the most important signaling mechanism of operation for the razdatok-economy system.

Historic analysis of the development of the Russian economy shows how the razdatok-economy system formed and developed under objective conditions. The laws of this system are 1) service-labor organization, 2) balancing tribute and distribution flows, and 3) a mechanism of complaints which played the role of feedback. At every stage in the history of the Russian razdatok-economy, a specific management system was formed. It had to provide for the effective functioning of the razdatok-economy system as a whole. Periodically, with changes in the conditions of running the economy and a complication of the social structure, the management model becomes ineffective in dealing with the problems of economic development. The Russian economy has been experiencing one such period during the 1990s, at the stage of market reforms. As before, in the current stage of development a spontaneous search for new effective organizational forms is going on. As a result, razdatok-economy institutions will be improved.

§2. Institutional Changes in the Period of the Market Reforms

Market reforms of the 1990s in Russia represent the process of institutional transformation embracing all the branches of the economy. It was expected that in the course of the reforms the basic institution of ownership would be changed and market forms and methods would be introduced into the economic practice. Schematically the directions of the market transformation in the razdatok-economy are shown in Figure 1.1.

The macro-economic environment of any society is determined by the dominant type of economic system (Box 1). The Russian economy in distinction to market economies, represents a *razdatok-economy*⁸.

⁸ O. Bessonova is the author of the principle propositions and notions of the theory of razdatok-economy in Russia. The term is used instead of the term "distributive" traditionally used to describe Russian economy. The term "razdatok-economy" means its objective character, formed historically and developed under the influence of material factors. For details, see "The Razdatok-Economy as a Russian Tradition", *Obshchestvennye Nauki* (Social Sciences), 1994, No. 3, pp. 37-49 (in Russian); O. Bessonova, *Housing: the Market and Distribution* (Novosibirsk: Nauka, 1993), (in Russian).

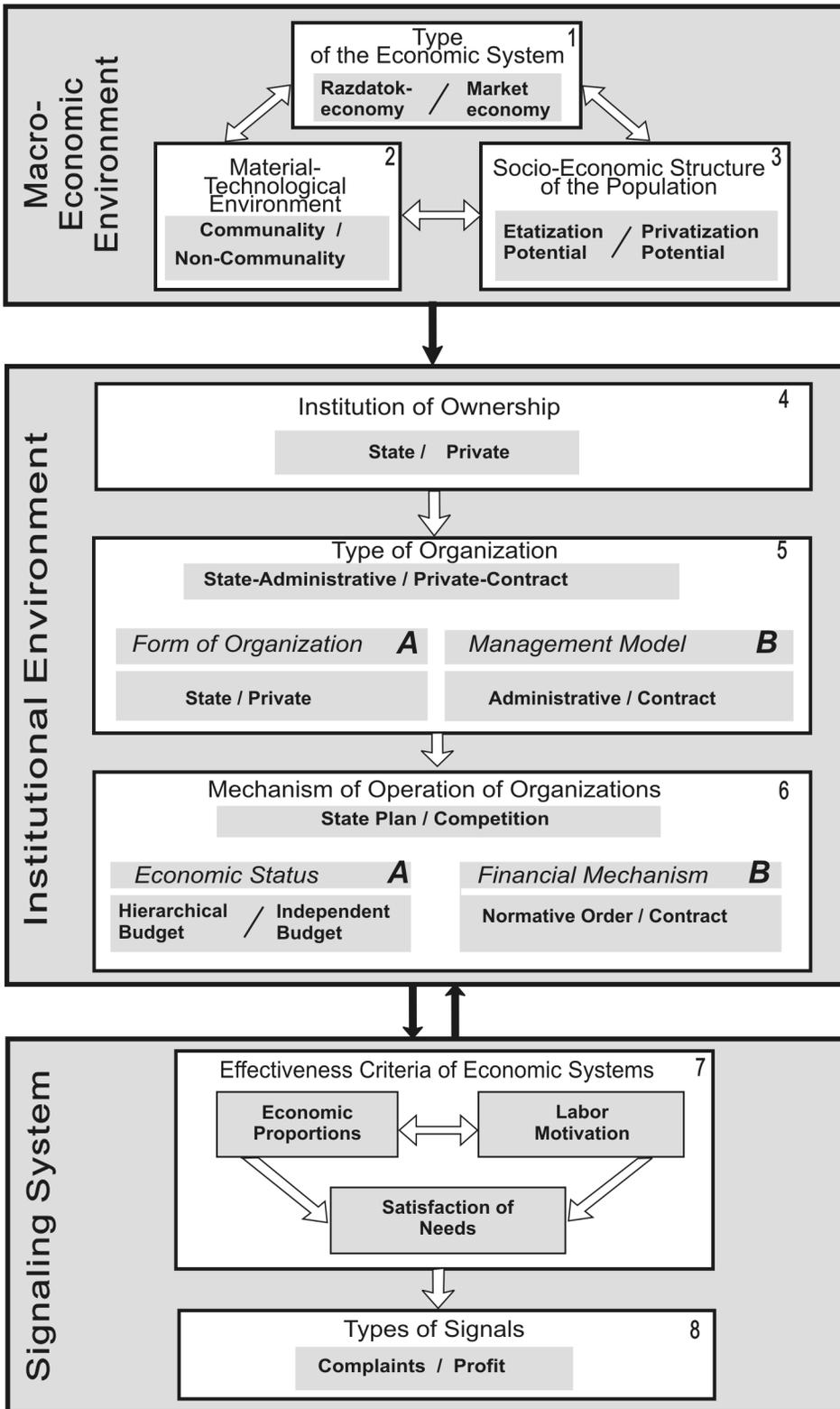


Figure 1.1. The Scheme of Institutional Changes Expected in the Razdatok-Economy in the Course of the Market Reforms

The basic law of operation for a modern razdatok-economy is the law of tribute and distribution flows, in kind and financially. A state plan based on the system of normatives and tariffs helped the central power bodies to maintain this correlation. Self-regulation of the razdatok-economy system was achieved with the mechanism of complaints playing the role of feedback. They reflected deviations in the quantity and quality of allocated resources (services) from the established normatives. Labor relations were regulated by the general law of obligatory service-labor based on staff rosters and wage levels. Such organization of the institutional environment determined the rules for the operation of all economic entities.

The razdatok-economy system is characteristic of societies with a high level of communality of the material-technological environment (Box 2).

Communality is an organization of the material-technological environment such that its parts present a unified inseparable system; isolation of any part could lead to the disintegration of the system as a whole. Society as a whole benefits from such communal infrastructure and it becomes a condition for the society's survival. Communal infrastructure is maintained and developed not by the totality of private entities which realize their own interests, but by the state standing for the public interests. It establishes an appropriate management system and through the central bodies determines the general rules for the use of the communal infrastructure for all economic entities.

In the course of the historical development of Russia, communality of the material-technological environment has been constantly increasing. At the same time, the center of mass was shifting more and more from the natural (land and mineral resources, forests, etc.) to the material-technical infrastructure. At present, communality is characteristic of all the branches of Russian economy. It is serviced by the unified energy system, the centralized heat and water supply systems, and the public railway transportation system.

Communality in housing manifests itself in the unified public life-support systems for the main part of the housing stock. The system is organized in such a way that established standards of service and rules of use are maintained in every part (unit) of it.

The character of the material-technological environment brings forth a certain socio-economic structure of the population (Box 3). The communal character of the environment is matched by the dominance in the structure of the population of groups recognizing the leading role of the state in providing the operation of the communal infrastructure. These groups of population comprise the **etatization⁹ potential** of the society.

Stability of the etatization potential is conditioned by the historic generational experience of struggling for survival. It has demonstrated that the razdatok-economy system is compatible with the communal character of the material-technological environment of the Russian society. As the majority of the population lives in the housing stock owned by the state, it determines the rules of use of the housing stock and bears the main maintenance expenses. It results in the formation of the etatization potential in housing.

⁹ Etatism (<Fr. *etate* state) means realization of the right (<for the state to actively participate in the economic life of the society.

A certain combination of the type of economic system, the character of the material-technological environment and the socio-economic structure of the population creates a macro-economic environment for every society which determines its economic life. The razdatok macro-economic environment with a communal infrastructure and a high etatization potential of the population are characteristic of Russia.

The market macro-economic environment is characterized by the non-communality of the material-technological environment and dominance of privatization potential of the population. **Non-communality** manifests itself in the technological independence of elements of the material infrastructure and their ability to function on their own. Market relations develop in a non-communal environment while the law of supply and demand serves as its main regulator. Under market economy conditions, groups oriented toward private means in the organization of economic life dominate in the socio-economic structure of the population. These means constitute the **privatization potential** of the population. Private housing is predominant in countries with a market economy. It takes the form of individually owned houses, a rental housing sector, or condominiums. Heat and hot water are usually supplied through the equipment installed directly in the buildings.

Both razdatok and market macro-economic environments form institutional environments corresponding to them. The nature of the institutional environment in its turn is characterized by the basic **institution of ownership** (Box 4).

State ownership is the basis for the modern razdatok-economy. The essence of the state ownership in the razdatok-economy is that the state, being the owner of the main resources, is responsible for their use in the interest of the society as a whole. The state distributes property and allots its parts to the economic entities, establishes the rules for the use of the property and the amount of production or services tribute for the economic entities. The state also establishes and adjusts all the economic relations.

Under **private ownership** in the market environment separate objects of property are owned by individuals, groups of people, or organizations which use them in their own interests; relations between economic entities are established by these entities themselves and are regulated by the laws of market economy.

The basic institution of ownership determines all the institutional elements of economic life, first of all the **forms of organization** of the economic entities (Box 5, A). State organizations dominate under **the state ownership**. The state form of organization means that it is established by the central or local power bodies that should supply it with all the necessary production resources. At the same time the state fully regulates all economic activities. In the market economy organizations established by private entities with the purpose of gaining profit dominate; in other words, the dominance of **private forms** is observed. **Management models** (Box 5, B) formed both in the market and razdatok-economy institutional environment represent the means for the coordination of the economic operation of the entities which help to organize production in the most efficient way under specific historical conditions.

On the eve of the market reforms of the 1990s in Russia, the administrative management model was characteristic of the state organizations. The **administrative management model** is characterized by a hierarchical order where the lower management links are directly

subordinated to the higher link accumulating all the financial and material resources.

In modern market economies a **contract model** represents the basic management model. Under this model all economic entities are independent and establish horizontal relationships between themselves on the basis of contracts.

The combination of the form of organization and the management model specifies the **type of organization** (Box 5). Each historical period in the development of the market or razdatok-economy is characterized by the dominance of a specific type of organization. **State-administrative organizations** were characteristic of the razdatok-economy in 1930-1980s. **Private-contract organizations** are characteristic of modern market economies in the West.

Institutional environments in market and razdatok-economies are characterized by different **mechanisms of operation** of organizations (Box 6). For the razdatok -economy of Russia on the eve of reforms **state plan** represented the mechanism of operation. It balanced tribute and distribution flows. The mechanism of **competition** sets the balance between supply and demand in the market economy.

The difference in the mechanisms of operation manifests itself in specific features of the economic status of organizations and operating financial mechanisms. The **economic status** characterizes the degree of economic independence of different organizations (Box 6, A).

Under state planning, a **hierarchical budget** of income and expenses is the essence of the economic status of the state-administrative organizations. This means that the budget of all lower-ranked administrative management levels was incorporated into the budget of higher-ranked organizations. Thus within the framework of a hierarchical budget each top management link completely controlled the financial condition of its lower links. An **independent budget** is typical of private-contract organizations in the market institutional environment. Organizations implement financial policy independently within their budget.

Financial mechanism represents the means of acquiring financial resources and the rules of their spending (Box 6, B). For the state-administrative organizations in the razdatok-economy **normative order** represents the essence of their financial mechanism. It helped to determine the main sources of acquiring capital, its accumulation and spending. Normative order represents a unified system of normatives, i.e., qualitative indices determining the values of spending of all kinds of resources for the production of goods and services for all state organizations. Normatives are approved at the top management level of the state and make up the basis of the state plan. In private-contract organizations in the institutional market environment, financial mechanism is determined by **the contract conditions**.

Self-regulation of any economic system and the adjustment of the corresponding institutional environment are exerted on the basis of the feedback (or signaling) system. The signaling system incorporates the criteria of efficiency of economic systems and the types of signals which naturally reflect the degree to which the effectiveness criteria have been achieved.

Economic effectiveness criteria (Box 7) include three interdependent groups of indicators. **Economic proportions** show the basic relationships in using the production resources to the best **satisfaction of needs**. Within

any branch of an economy this is the proportion between the money spent on the management and organization of the production process, material expenditures, services, and wage expenses. The wage level together with other labor stimuli specify the **labor motivation** in organizations of different type for all categories of employees, from an ordinary worker to a manager.

While the effectiveness criteria are identical for the market and razdatok-economy systems, **types of signals** (Box 8) are different.

Profit, the excess of income over expenses, is the main type of signal in the market economy. Gaining profit for private organizations is the condition for their survival in a non-communal environment. If the majority of organizations work stable with profit, then the market economy is in a condition of sustainable development. If the majority of organizations do not gain profit and go bankrupt, then the market economy enters a period of crisis.

The system of **complaints** is the main type of signal in the razdatok-economy that serves as an indicator of the malfunctioning of the economic system. At every historical stage such an institutional mechanism is formed that it permits complaints to best play the role of the signaling system. To this end the order of consideration of complaints submitted by economic entities or the population is determined in all the spheres of the razdatok-economy. The rules for submitting and registering complaints as well as the period of time to respond to them are determined for all the hierarchical management levels on the state level. At all the levels of the economic system there are people specifically appointed to deal with complaints. Also, in the working schedule of every manager, reception hours are set to meet with the population to deal with their complaints in his sphere of competence.

If the problems designated in complaints are being solved in a timely manner at the levels where they are made, the economic system is in a condition of sustainable development. If the level of complaints exceeds the norm, they are collected at either the level of organizations, at the branches of industry, or in the territories. Then they are either publicized in the mass-media or sent directly to the central state bodies. When such complaints become mass in scale, they indicate that the razdatok-economy is in crisis. Global socio-economic reforms are carried out during these periods to solve the existing problems. These periods represent periods of institutional changes as the institutional environment of the economic system is renewed.

A recent transformation period of institutional changes in Russia fell in the 1980-90s. Its essence was an attempt to introduce the relations of a market economy, to replace the basic institution of state ownership and the main elements of the institutional environment. Privatization and the introduction of market economic models were the mechanisms of transition to private ownership that became the content of the national market experiment in Russian razdatok-economy.

The market experiment embraced all branches of the economy. In housing, replacement of relations of razdatok-economy by market economy relations was the aim of the transformation of state housing ownership and the introduction of corresponding changes in the rules of operation of housing maintenance organizations.

First, the rules of allocation of the resources available to housing maintenance organizations had to be changed. In the razdatok-economy, the

amount of material and financial resources necessary to the housing maintenance organizations was allocated by the state bodies on the basis of plan according to the share of public housing stock these organizations maintained. They were also given the facilities and

the necessary equipment. In the market economy in conditions of competition the amount of necessary capital is received by selling services to the customer while the facilities and equipment are either leased or bought.

Second, in the course of the market transformation, the rules of rendering services to the residents had to be changed. In the razdatok-economy, maintenance organizations rendered a given set of services. State resources and finance were allocated to them to this end. Costs, maintenance organizations bore, were mostly reimbursed directly from the state budget and through the housing fee. Housing fee was collected from residents of the state housing according to the unified normative proportionately to the floorspace of occupied dwelling. On the eve of the reforms the normative of housing fee amounted to 0.17 ruble per square meter of dwelling. In the market economy the range and the quality of services are determined solely by the consumers' needs. The amount of collected apartment rent should cover completely the maintenance expenses.

Third, the rules of acceptance into organizations rendering maintenance services had to be changed. In the razdatok-economy, workers were accepted into organizations for an unlimited term and submitted their *service record* (Russian *trudovaya knizhka*), a life-time document given to all workers by the state organization where they worked. It indicated the kinds of work performed by the worker and kinds of rewards and incentives received for the work done. Attachment to a working place gave not only the possibility to receive salary, but also the right to receive public housing, medical services, social insurance, etc. In the market economy, workers are accepted for the term stated in the contract. Usually their wages is the only remuneration they receive for their work. All other goods and services necessary for living are bought by the employee on their own.

Fourth, in the course of market reforms the rules of assessing the operation of housing maintenance organizations had to be changed. In the razdatok-economy system the absence of complaints of residents living in the housing stock serviced by the housing maintenance organizations indicates the successfulness of their operation. In the market economy, profit gained by housing maintenance organizations becomes the indicator of their success. It means that consumers pay for the services rendered to them indicating that they are satisfied with the quality of service.

These changes in the rules of operation of housing maintenance organizations would mean the replacement of the razdatok institutional environment in housing by the market environment.

The basic institution of ownership had to change at the same time. In the housing sphere, instead of one proprietor represented by the state, a large number of private owners would appear. Thus the institutional environment would change and its elements would acquire a market nature. It would mean the emergence and growth of a new type of private-contract organization in housing maintenance.

In housing, the market experiment took the form of the Demonstration projects put into operation in several cities of Russia pursuant to the Agreement on Technical Assistance between the governments of the Russian Federation and the United States of America. On the eve and in the

course of realization of the Demonstration projects from 1992 to 1996 in the city of Novosibirsk, economic-sociological monitoring of the market experiment in housing was conducted under financial support of the United States Agency for International Development.

Each stage of monitoring reflected considerable changes in the character of the institutional environment connected with the emergence of new types of housing maintenance organizations (Figure 1.2).

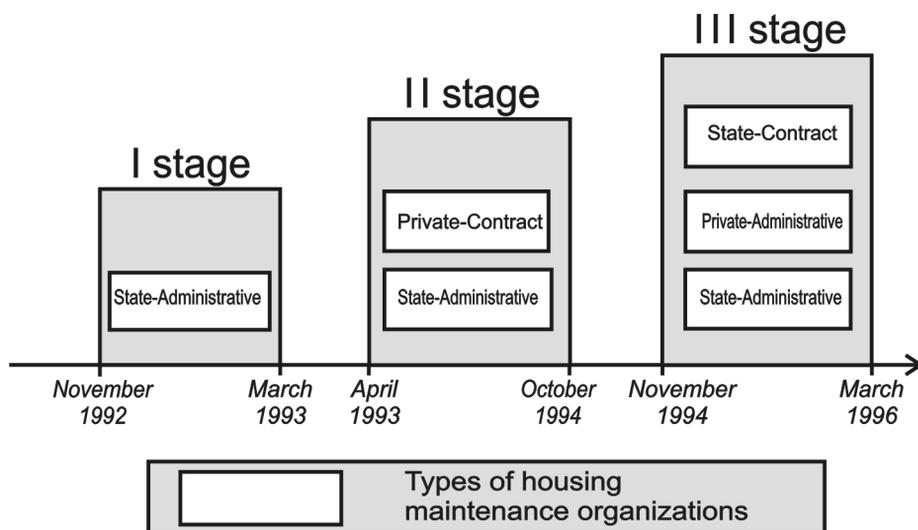


Figure 1.2. Stages of the Economic-Sociological Monitoring of the Market Experiment

Before the market reforms were started, organizations of the state-administrative type represented by housing trusts had operated in the sphere of housing maintenance. These organizations were the objects of the **first stage** of monitoring

The **second stage** of monitoring started when the market experiment in the form of the Demonstration projects was initiated. During this period, along with housing trusts, management companies became active. They were chosen on a competitive basis and entered into contracts for housing maintenance. They represented the private-contract type of organization. A contract management model and a new mechanism of operation were tested in these organizations.

The **third stage** of monitoring institutional changes was connected with the emergence of new types of organizations in housing. On the one hand, private-contract organizations working under the Demonstration projects were replaced by a type of **private-administrative organizations**. These organizations, being private in form, used the administrative management model. On the other hand, some state housing maintenance organizations of the administrative type were transformed into **state-contract organizations**. They were state in form, but began to use the new contract management model.

The goal of monitoring institutional changes in one of the branches of the razdatok-economy — housing — was to make a comparative analysis of the mechanisms of operation for organizations of all types and to find an institutionally stable type among them, one capable of effective operation at the current stage of development of economy in Russia.

* * *

Thus the experiment realized in the form of the Demonstration projects became a part of the market reform in the public housing system and also the razdatok-economy of Russia.

The reform was oriented toward mass housing privatization and the development of private management in maintaining the housing stock in different forms of possession. If the set goals were realized, the market management forms and methods offered under the Demonstration projects would completely replace the state structure of housing management. Such a change in the institutional environment expected to occur in other branches of the economy as well would result in the development of a market economy.

To return to the old system of economic relations and restore the administrative management methods is an alternative to the above method. It would mean the rejection of the market management methods and the inability for the razdatok-economy to reform.

These two ways were, as a rule, considered to be the most probable results for the development of the market reform in Russia in the 1990s.

But how probable is a third way for the development of a reform? Is it possible that during the experimental period various institutional elements of the market economy will be tested and as a result, such management models will be found that will make it possible to effectively solve the problems of the razdatok-economy accumulated in 1930-1980s?

The answer to this question was received in the course of the economic-sociological monitoring of the market experiment in the Russian housing economy described in this book.

Chapter 2

Conducting Economic-Sociological Monitoring

Verification of the theory of the institutional development of Russia, presented in this book, is determined by the extent to which its propositions explain the inner logic of current changes. The scientific facts presented here will serve as a basis for the explanation. The goal of monitoring the institutional changes was to collect this data. Monitoring was based on the procedures and methods of economic and sociological analysis.

The procedure of economic-sociological monitoring will be presented in Chapter 2 of this book. It was possible to study the current period of institutional changes in Russian razdatok-economy with the help of monitoring one of its sectors, housing. The instrumental character of the method allowed the researchers to use the scientific facts to explain the process of institutional changes in Russian society as a whole.

§1. The Indicators of Monitoring

The economic-sociological monitoring of the market experiment in housing included regular, periodic measures of indicators on the basis of comparable procedures. These indicators quantitatively expressed the effectiveness criteria of economic systems. At all monitoring stages, these indicators helped to compare the efficiency of the mechanisms of operation of different types of housing organizations.

The indicators of economic-sociological monitoring form four groups. They help to measure:

- economic proportions;
- labor motivation;
- satisfaction of needs;
- resident requests.

Three indicators, namely management costs, the wage fund, and the materials and repair fund were used to measure the economic proportions.

The **management costs** are expenses housing organizations bear to maintain the administrative bodies. In the state-administrative housing organizations management costs included the wage fund of the trust administrative personnel. These same costs for private-contract organizations equal the amount of the management fee. It is paid to the manager or the management company according to the contract.

The **wage fund** of the employees is the sum of pay to all employees, excluding those in the top administrative bodies. In the state-administrative housing organizations, the wage fund is the sum of pay to all lower level employees and workers of the trust rendering specialized services. In private-contract organizations the wage fund is the pay to all employees, except for the manager.

The **materials and repair fund** is intended for buying materials and carrying out current house and in-house utility service line repair. For all types of organizations, this fund includes costs of materials, tools, electricity, and payment to the contract construction organizations. Unlike the management companies, the materials and repair fund of the housing trusts includes payments to the employees of the trust repair and construction service. It allows the trust to make repairs on its own.

These indicators helped to determine proportions in the spending of the financial resources and to draw conclusions about the efficiency of mechanisms of operation of different types of housing organizations.

Labor motivation was assessed on the basis of two indicators, the wage levels and the working load.

Wage levels for different categories of employees in the state-administrative organizations were calculated on the basis of the staff rosters and paysheet data. In housing trusts, wages had a complex structure. It included payments of wages according to the staff roster and different kinds of bonuses. These bonuses included multiple compensations for combining professions, for increasing the maintenance zone, for completing additional normatives, etc. In private-contract organizations, wages were paid according to the contract.

The **working load** of every employee depended on the number of staff roster positions he held and the normative load. It also depended on the actual work load. Data on the staffing levels compared with staff roster levels and official instructions served to

determine the normative work load. Interviews with the employees at all levels were the basis to determine the actual work load.

To draw conclusions about labor motivation efficiency, wage levels actually paid were compared with the normative. Wage levels in housing organizations of different types were also taken into consideration.

Two groups of indicators were used to measure the level of resident satisfaction with the overall performance of the housing organizations. These were residents' assessment and the assessment of the physical characteristics of buildings. The former were received during resident sociological surveys, the latter during technical inspection of buildings.

The choice of indicators was conditioned by two interdependent tasks maintenance organizations must solve. On the one hand, they carry out current repair work. Its results can be easily assessed by the residents. On the other hand, housing organizations maintain the safety of buildings and the utility service lines in order to prevent the deterioration of their physical characteristics. Only specialists can assess the results of this kind of work during technical inspections.

Current repair work is carried out on a daily basis. It includes maintaining the cleanliness of yards, entries, and cellars; completing requests for electricians and plumbers, providing the proper operation of elevators and garbage chutes, disposing of garbage, etc. Maintenance is planned on the staff roster basis. Thus, the necessary number of people to be involved in a particular activity, their wages and the normative material supply are specified. Activities to maintain the safety of buildings and equipment are capital in character. They include equipment preparation for the winter season; equipment repair, repair of entries, upkeep of the building or its capital repair. Activities of this type are carried out periodically. Activities to maintain the physical characteristics of the building are planned on the basis of work load levels. They depend on the physical depreciation of buildings and equipment.

In the course of monitoring, the following requirements for residents' assessments were formulated:

1. completeness of the assessment system, i.e., residents' assessments had to be interconnected and give a full picture of all aspects of housing maintenance;
2. quantitative definiteness relative to the process that is being measured, i.e., evaluation had to be built upon the questions from a questionnaire with a quantitative scale;
3. linear character, i.e., an increase or decrease in the indicator's value had to correlate with an improvement or worsening of housing maintenance.

At the first two stages of monitoring, residents' assessments included five indicators:

1. **Assessments of Specific Aspects** of housing maintenance represent averaged assessments by residents of every aspect of housing maintenance from the normative set.
2. **Successfulness of Completing Residents' Requests** shows promptness and quality of completing a request.
3. The **Level of Resident Satisfaction** reflects the structure of residents being satisfied with housing maintenance to a larger or lesser extent.

4. An **Integral Appraisal of Satisfaction** with the housing maintenance is an averaged assessment of the specific aspects of housing maintenance by each family who participated in the survey.
5. The **Alienation Indicator** demonstrates the share of residents who had a reason to address the housing organizations, but who did not do so. It shows the level of uncompleted requests in rendering the normative set of services.

At the third stage of monitoring, additional requirements to residents' assessments were formulated. They were connected with new goals and experiences in applying the assessment model at the first two stages. These were:

1. **Uniqueness of Interpretation** — an indicator must reflect the changes in the process that is being observed but not the changes in the housing economy as a whole;
2. **Successfulness** — an indicator must reflect not the causes for changes, but a result of the process under observation;
3. **Sensitivity** — an indicator must react to changes taking place in the course of monitoring.

All five indicators were analyzed from the point of view of these new additional requirements.

The first indicator which shows resident assessment of the specific aspects of operation was built on the following question from the questionnaire:

What is your assessment of the current performance of housing organization on providing:	excellent	good	fair	poor
Cleanliness of Entries	5	4	3	2
Cleanliness of Grounds	5	4	3	2
Performance by Plumbers	5	4	3	2
Performance by Electricians	5	4	3	2
Staff Attitude to Residents	5	4	3	2
Elevator Maintenance	5	4	3	2
Garbage Chute Maintenance	5	4	3	2

As a result, the indicator of assessment of the specific aspects of housing maintenance answered all the selection criteria to the largest extent. It was used at all stages of monitoring and reflected the level of housing maintenance rendered by housing organizations of all types. The aspects of performance which included the main types of services from the normative set rendered to the residents were included in the assessment. Certain staff categories are also involved in the work in each of the aspects. Thus, along with the assessment of the aspect itself, efficiency of staff performance was also measured. Thus, through the assessment of specific aspects, **the level of housing maintenance** was also measured at all stages of monitoring.

The indicator of successfulness of fulfilling residents' requests was built on the answers about the completion of requests to plumbers and electricians. The successfulness scale included three gradations:

- promptly completed requests;
- requests completed after repeated calls or after calling the manager;
- uncompleted requests.

This indicator was used at all stages of monitoring because it reflected the **quality of housing maintenance** and showed the character of reaction to residents' requests. Housing organizations registered the completion of residents' requests on their own. Data received from residents in the course of monitoring did not agree with their data. For an organization, a request was considered to be completed if a worker came on request. However, it was not taken into account whether the malfunction was repaired. Such a peculiarity in registering the requests resulted in 100 percent index of request completion. In the course of monitoring, it was noted whether the request was actually completed. The larger the number of promptly completed requests, the higher the quality of maintenance, because it meant that the cause of malfunction was repaired immediately and there was no necessity for repeated requests.

At the first two stages, the indicator of the Level of Resident Satisfaction was based on the answers to the question: "Are you satisfied with the condition of maintenance as a whole?" A scale from "totally unsatisfied" to "fully satisfied" was used. Experience in using the indicator of the Level of Resident Satisfaction showed that it was difficult to come to definite conclusion about satisfaction with housing maintenance on its basis. In conditions of a constantly changing environment, changes in spheres not directly connected with the activities of housing organizations influenced the indicator's dynamics. These included an increase in the state housing fee, regularity of wage payment, resident's ability to pay timely, etc. Thus, this indicator did not meet the requirement of unambiguous interpretation. For this reason it was not considered at the third stage of monitoring.

The indicator of Integral Appraisal of Satisfaction, at the same time, met all the requirements of monitoring. By its construction, this indicator represented the distribution of families in terms of their averaged levels of assessment of all aspects of housing maintenance. In keeping with this indicator, all families were divided into three groups:

- totally unsatisfied: those whose average assessment was from 2 to 3;
- not quite satisfied: those whose average assessment was from 3 to 4;
- fully satisfied: those whose average assessment was from 4 to 5.

Since this indicator reflected the distribution of residents in terms of different levels of satisfaction, it was used to assess the Level of Resident Satisfaction with the performance of different types of housing organizations at the third stage of monitoring.

The Alienation indicator used at the first two stages of monitoring was not sensitive enough to short-term changes in the performance of housing organizations. It was preferable to use this indicator to analyze the dynamics of long-term changes. For this reason, this indicator was not used at the third stage of monitoring.

Thus, only three of five indicators were included into the resident assessment at the third stage of monitoring:

- the Level of Housing Maintenance;
- the Quality of Housing Maintenance;
- the Assessment of Satisfaction with the Efficiency of Housing Organizations.

The **Indicator of the Physical Characteristics** of a building was based not on the resident assessments, but on the results of a technical inspection conducted by specialists. Changes in the physical characteristics of buildings are inertial. They depend upon the year of construction and design features of buildings. In this connection physical characteristics of

buildings were measured only once in the course of monitoring, while the performance of housing organizations was assessed every six months.

The procedure for assessing the physical characteristics of the housing stock was developed by the Scientific Management Laboratory at the Industrial-Housing Repair Board (IHRB) of Novosibirsk in the years from 1987 to 1991. This procedure was used for regular assessment of performance by housing organizations in Novosibirsk and other cities in Russia. In accordance with the procedure and on the basis of the given criteria, an inspector from the IHRB made an assessment of the condition of structural components of the house and housing maintenance.

The procedure of technical evaluation which had been approved in practice over a long period of time was improved by the authors. It differs from the former procedure in three ways.

First, a new assessment scale was used. It made it possible to actually reflect how an inspector worked. The scale had three gradations: 2, 3, and 4. They characterized different degrees in the physical characteristics of structural components of buildings.

Secondly, current performance of housing organizations was not assessed because its results had been assessed in the course of the residents' surveys.

Thirdly, a formalized questionnaire was created. It allowed the team of researchers to easily present and evaluate the results of inspection.

Technical inspection made it possible to assess the physical characteristics of the buildings maintained by housing organizations of different types and to analyze differences in technical policies of housing organizations. These differences manifested themselves in differences in assessments of the condition of structural components of buildings.

To measure **Resident Complaints**, the last group of indicators of economic-sociological monitoring, three indicators were used. They characterized three basic types of complaints: latent complaints, repair requests, and active ("Red Flag") complaints.

Latent, not yet obvious, complaints point to problems that exist in different aspects of housing maintenance. These problems have already been recognized by residents, but they have not yet requested services from the housing organizations for their resolution.

Repair Requests are resident requests to housing organizations to render a service from the normative set.

Active or "Red Flag" Complaints include resident appeals to higher- organizations, the media, local authorities, and parliament members about problems in housing maintenance not resolved by housing organizations.

At the first two stages of monitoring, the structure of the main types of repair requests was analyzed. The analysis helped to explain the problems that appeared with the emergence of new types of housing organizations. At the third stage of monitoring, complaints were measured on the basis of actual registration of complaints in housing organizations and registration of residents' appeals to higher-level authorities for the resolution of housing maintenance problems.

§2. The Objects for Observation and Collection of Information

Before the market experiment was initiated, **at the first stage** of monitoring, from November 1992 to March 1993, the state-administrative housing organizations were the object of observation. These organizations worked in the sphere of housing maintenance of municipal and enterprise-owned housing.

Municipal housing maintenance organizations were represented by the housing trusts (HT) of the Leninski and Zheleznodorozhny districts of Novosibirsk together with housing maintenance units (HMU) NN 26, 3, and 55 since they were parts of these trusts.

Enterprise-owned housing maintenance organizations were represented by the Housing and Communal Boards (HCB) together with the HMUs of the Khimkonzentrat factory, Sibselmash plant and the Siberian Branch of the Russian Academy of Agricultural Sciences. These organizations represented industrial enterprises and budget organizations of the city which had enterprise-owned housing stock in their control.

At the first stage of monitoring, interviews with the directors of the housing trusts and HMUs, foremen, electricians' and plumbers' team leaders were conducted. The total number of interviews was 26. Data on the actual wage levels of 812 workers of HMUs, and HTs of the Leninski and Zheleznodorozhny districts were collected.

At the first stage of monitoring, resident assessment was built on the data of a complete survey of the residents of thirty-three houses in the Leninski district selected for participation in the first Demonstration Project in housing maintenance. The selected district is an industrial and residential district of the city. The district has an average standard of transportation infrastructure and other facilities, such as schools, stores, and athletic centers.¹

The distribution of the buildings is representative of the typical building pattern in the district and the entire city. It is composed mostly of 5- and 9-story buildings built between the late 1950s and the 1980s, in the period of mass residential construction (Table 2.1).

Table 2.1.

Distribution of Buildings Included in the Demonstration Project, 1993, Leninski District, Novosibirsk

Type of Building	Total Units	Period Built			Building Material	
		1930-1956	1957 - 1979	1980 & Later	Brick	Concrete Panel
Low-Rise Buildings (2-4 stories)	4	4	-	-	4	-
5 Story <i>Khrushchovka</i> Buildings	23	1	22	-	14	9
9-12 Story Buildings (elevator and garbage chute)	6	-	2	4	6	-
TOTAL	33	5	24	4	24	9

¹ O. Bessonova, On Apartment Rent in the USSR: the Case of Novosibirsk, *Izvestiya Sibirskogo Otdeleniya Akademii Nauk SSSR. Seriya Ekonomiki i Prikladnoi Sotziologii (Proceedings of the Siberian Branch of the USSR Academy of Sciences. Economics and Sociology Series)*, No. 3 (1985): p. 59 (in Russian).

The 5-story *Khrushchovka* buildings, named after Khrushchev, who launched the program for their construction, mostly built in the 1960s and 1970s, are distinguished by small kitchens and rooms accessible only through the main room, having a combined toilet and bathroom. They are not equipped with elevators and garbage chutes. Most of the 9-story *Improved Design Apartment* buildings constructed in the 1980s have a larger kitchen, rooms with higher ceilings, a separate toilet and bathroom, hallway access to all rooms, and elevators and garbage chutes. There are also several low-rise buildings in the district built before or immediately after the war (1941-1945). While these old buildings can be converted into higher-quality housing through capital repairs, pending such improvements they are run-down and unsafe. For example, one such building, built in the 1930s, awaiting repair poses serious maintenance problems, while a similar building, built in the 1950s and on which capital repairs have been completed, is one of the most attractive residential buildings.

The surveys of 2,073 families living in buildings included in the Demonstration Project were conducted in February and March 1993 by interviewers of the sociological service "Sotsium" (for more details, see Management and Maintenance of Municipal Housing Stock in Novosibirsk: Present Condition and Public Opinion. - Working Paper No. 6 - PADCO, Inc. Washington. March 1994).

The difficulties faced in developing methods and constructing the first questionnaire stemmed from the fact that the housing maintenance had not previously been the subject of any special sociological research. Thus no survey techniques or questionnaires existed that had been developed in Russia and tested in actual research.

Related to this problem was the lack of a consistent system of concepts describing the housing maintenance that were interpreted consistently by scientists, practitioners, and the lay population.

The use of assessments expressed by the residents as an indicator of the objective status of HMU's performance was further complicated by the residents' differing views regarding the HMU's prescribed role in housing maintenance. In particular, they often contacted the HMU and held it responsible for all water supply and heating problems, which were often not the HMU's responsibility. For this reason it was essential to ascertain exactly with what the respondent was dissatisfied by adding questions about problems in services provided to the residents.

The survey team also encountered the methodological problem obtaining objective information through subjective satisfaction assessments. Quite often these assessments were influenced by external factors related to the status of individuals, their general outlook and current attitudes. Therefore the appraisal of services had to be supplemented with factual information on the standard of management and maintenance services to put those assessments into the proper context.

On the eve of the market experiment, in addition to the assessment of housing maintenance, the survey had the goal of obtaining welfare and income status data, information on the attitude to the market experiment, participation in privatization of housing, demand for state housing allowances and the character of requests for housing maintenance.

There were different types of questions in the questionnaire. Closed (multiple-choice) questions, semi-closed (multiple-choice plus “other” option) and open-ended questions were asked. The number of the latter was greater than is the standard practice. This was needed because the survey of these types of problems was the first and it was necessary to receive a complete picture of the problem, its understanding and interpretation by those surveyed. Thus, of the total number of questions, closed questions amounted to 52 percent, semi-closed to 27 percent, and open-ended to 21 percent.

The survey team made use of classical questionnaire construction techniques that permit the researcher to verify the reliability of the information obtained: control questions on related subjects in different parts of the questionnaire, interpreting and correlating data for generalization and constructing indicators, and verification of answers given to direct questions with data derived from answers to indirect questions.

Prior to the survey of all the residents, a pilot survey was conducted. As a result, some questions had to be removed, others that caused discomfort in the respondents, were modified. For example, questions about attitudes to market changes in housing had to be removed. They called up associations that stimulated excessive discussions with a political bias, thus upsetting the flow of the interview and the intent of the question. Questions related to income, expenditures, or possession of certain property items were removed, or modified.

Careful preparatory work ensured the survey’s success. As a result, 94 percent of families in a large micro-district of the city were surveyed. On behalf of the HMU management, all the residents of the district were notified about the dates of the survey by mail. Also, they could ask any questions about the survey by telephone. Many of them did so. The interviewers were issued special cards to confirm their identity to allay residents’ fears aroused by the high crime rate both in the city as a whole, and particularly in the buildings under review. For example, on the eve of the survey, a murder was committed in one of the houses and burglaries were committed on several other occasions.

The interviewers remarked that the residents’ active participation in the survey was above the typical level. Readiness to answer the questions reflected a great number of problems in housing maintenance and hope for their resolution.

Information collected during the survey was unique for several reasons. First, a large enough array was obtained, permitting the researchers to draw statistically significant conclusions. Second, universal rather than a sample nature of the survey allowed the researchers to assert confidently that it represented all social strata of the population in a typical urban district in the period of institutional changes. Third, the concentration of all respondents in a limited area made it possible to reduce the impact of variable external conditions on the respondents’ appraisals when interpreting the results.

Residents’ assessments received on the basis of the first survey gave a representative picture of the state of housing on the eve of the market experiment and provided initial indicators for further monitoring.

At **the second stage** of monitoring, from April 1993 to October 1994, private-contract organizations working under the Demonstration projects were compared with the state-administrative housing organizations.

Thus, performance of a management company “Tzentr-Sirena” (Demonstration Project-1) was compared to the work of the Housing Trust in the Leninski district. The former started to maintain a unit transferred from the latter. The same indicators were used to compare the performance of the firm “Komfort” (Demonstration Project-2) with that of the Housing Trust in the Pervomaiski district.

From April 1993 to October 1994, the second series of interviews with the directors of housing trusts and HMUs, managers, foremen and workers was conducted. Information about actual wage levels of 282 workers of housing trusts and management companies for the same period of time was collected.

At the second stage of monitoring, technical inspection of buildings maintained by new companies and housing trusts was done. Technical inspection of buildings under the Demonstration projects where private-contract organizations worked was conducted. Physical characteristics of buildings under Demonstration Project-1 was compared with those of analogous buildings maintained by the Housing Trust of the Leninski district. The latter represented a state-administrative type of organization. Two criteria were used for the selection of house-analogs:

- for each building under the Demonstration Project, its house-analog had to have the same number of stories, construction materials, and year of construction;
- the location of house-analogs relative to the main streets had to correspond to that of the buildings under the Demonstration Project, as the physical characteristics of the buildings on the main streets, most importantly their appearance, was under centralized control of the district and city administrations.

Using these criteria, 19 house-analogs were selected for comparative study of the buildings maintained by private-contract and state-administrative housing organizations.

At the second stage of monitoring, residents of the houses under the Demonstration Project were surveyed three times; first, in October 1993, then in April 1994, and finally in October 1994. Taking into account the results of the first stage of monitoring, dynamic assessment graph was built on the basis of 4 surveys.

In October 1993, questionnaires were mailed to residents of the houses under Demonstration Project-1. As a result, 1169 questionnaires were collected; they amounted for 53 percent of the general population. The analysis showed that the sample was representative.

In April 1994, residents’ assessments of new companies was compared with the average city level of municipal housing maintenance by state-administrative organizations. For this purpose, quota sampling of residents of the houses under Demonstration Projects-1 and 2 and residents of the municipal housing stock maintained by the city housing trusts was conducted simultaneously.

A multistage sample was built for survey of the city. First, from the list of municipal houses (except for the ones under the Demonstration projects), 10 percent was selected at random, totaling 250 houses. The sample set represented the general population by the distribution of houses in the city districts, construction materials, year of construction, and number of stories. Second, the number of families from each house for participation in the survey was determined. It was done on the proportions of general floorspace for houses with

different number of stories in the structure of the city housing stock. For example, the share of 1-2 story buildings in the structure of houses in the city amounted to 12 percent, while their share of the general floorspace was only 0.6 percent with the proportion of population living in these houses being approximately the same. Taking these proportions into consideration, the number of families to be surveyed in houses with different number of stories was determined: one family in 1 to 4-story buildings, six families in 5-story buildings, fifteen families in 9 to 12-story buildings. The share of surveyed families amounted to 5 percent of all the families living in municipal houses.

The surveyors chose the dwellings to be surveyed according to the developed schemes and instructions, proportionally representing in the sample families living in different entries and on all floors of the buildings. The features of the sample are given in the Table 2.2.

Table 2.2.

Sample Features, Novosibirsk, 1994

	Demonstration Project-1	Demonstration Project-2	City Municipal Housing Stock
Number of Surveyed Families	778	520	1764
Volume of the Sample, (percent to general population)	35	51	5
Total Houses, units	33	19	250
including, (percent)			
- 1-2 stories	0	48	23
- 3-4 stories	12	5	4
- 5 stories	70	42	47
- 6 or more stories	18	5	26

A representative sample made it possible to receive reliable, statistically valid results. Assessments of the city residents from the selected sample were able to represent the opinion of all those who lived in municipal housing stock, as the structure of the houses in the sample as to the number of stories, building materials, the year of construction, and distribution by the districts of the city completely correlated with the indices of the general population.

The analysis of the demographic structure of those surveyed showed that the main indicators of family composition under the Demonstration projects and in the city as a whole were generally very similar to each other. The average family size was 2.2 people, the share of working family members was 35-36 percent, the share of retired people was 25-27 percent, the share of children was 23-26 percent, etc. (Table 2.3).

Thus, all age and social groups of the population were proportionally represented in the surveys; their opinions were equally taken into consideration.

In October 1994, residents' surveys were repeated under Demonstration Project-1 and 2. By this time new companies had been maintaining the houses for one and a half years and one year, correspondingly. The tendencies in the performance of new private-contract organizations were analyzed.

Table 2.3.

**Demographic Structure of the Surveyed Families,
Novosibirsk, 1994**

	Demonstration Project-1	Demonstration Project-2	City Municipal Housing Stock
Average Family Size, people	2,2	2,2	2,2
Demographic Structure, %			
- Pre-School or School Children	23	26	26
- University and College Students	7	6	5
- Working Population	36	35	36
- Retired (because of Age or Disability)	27	25	25
- Temporarily Unemployed	7	8	8

A uniform questionnaire formulated, giving consideration to experience gained in the first stage of monitoring, was used at the second stage of the residents' survey. A modified questionnaire was considerably improved, its size was reduced, and questions making it possible to built unambiguous and quantitatively defined indicators of the level and quality of housing maintenance were introduced. At the second and third stages of monitoring, surveys were conducted by a group of qualified specialists from the firm "EKSO" at the Institute of Economy and Organization of Industrial Production of the Siberian Branch of the Russian Academy of Sciences.

In October 1994, the volume of the sample amounted to 35 percent of the general population under Demonstration Project-1 (772 families) and 51 percent under Demonstration Project-2 (520 families). The size of the sample was determined empirically. To do this, the stability of results for the total number of houses and for each house separately was analyzed. Additionally, controlling parameters for the sample's stability were used. These were the size of the family, its composition, and living conditions.

At the third stage of monitoring, from November 1994 to March 1996, private-contract organizations working under the Demonstration projects degenerated into a new type of organization, namely, private-administrative. In that period, along with the state-administrative organizations, new state-contract organizations began to operate. They took the form of Municipal Unitary Enterprises. All three types of housing maintenance organizations that existed during that period were the object of observation.

Private-administrative organizations were represented by the Housing Maintenance Unit of the Housing and Communal Services Committee of the Mayor's Office (HMU-1 HCSC) and an individual private firm, "Komfort". The former worked under Demonstration Project-1, the latter under Demonstration Project-2.

At this stage of monitoring, state-administrative organizations were represented as before, by the housing organizations of two city districts. These were HMU-73 and HMU-74, parts of the Housing Board (HB), the former housing trust of the Pervomaiski district, and HMU-23 of the Housing Board of the Leninski district.

State-contract organizations were represented by the municipal unitary enterprise “Zhilishchnik”. It was the first organization of this type in the city. It began to work in July 1994.

In the course of the third stage of monitoring, the effectiveness of all types of housing organizations was compared and their management models were analyzed. This analysis helped to form the principles for singling out institutionally stable types of housing organizations which met the effectiveness criterion to the largest extent.

At the third stage of monitoring, residents’ surveys were conducted with the help of the instruments and sampling used at the second stage.

At all the stages of monitoring, economic information was collected through interviews. They were conducted with the directors and workers of the housing maintenance organizations on a monthly basis. From November 1992 to March 1996, a total of 119 interviews was conducted:

- * 8 percent, or 9 expert interviews were conducted with the heads of the Departments of the Novosibirsk Mayor’s Office responsible for the housing-communal sphere.
- * 13 percent, or 16 expert interviews were conducted with the administration of the Housing and Communal Services Committee of the city.
- * 18 percent, or 21 expert interviews were conducted at the district level of housing management, including 10 interviews with the directors of housing trusts before they were transformed into the Housing Boards (HB) and 11 interviews with the directors of HBs.
- * 39 percent, or 47 interviews were conducted with the managers and workers of housing maintenance units, being the bottom level of the housing management system that existed at that time.
- * 22 percent, or 26 interviews were conducted with the managers and workers of housing organizations of new types.

In the course of monitoring, new regulations in housing legislation, corresponding normative, legal, and accounting documents were analyzed:

- The Civil Code of the Russian Federation (part 1), enacted on November 30, 1994;
- Normative acts and documents in the sphere of housing legislation from 1983 to 1996;
- Resolutions of the Mayor’s Office on reforming the city housing management department;
- Founding documents of new types of housing organizations from 1993 to 1996;
- Management and housing maintenance contracts concluded with the city housing organizations;
- Financial and statistical accounting documents of housing organizations of different types.

Methodological provision for the economic part of monitoring includes statistic accounting data, “Analysis of housing maintenance cost price” and “Labor account for 1992-1995” on a quarterly basis. In addition, internal documents of housing organizations of different types were analyzed, including plans and accounts on current maintenance, contracts, memoranda, orders on rewards, transfers, etc.

At each monitoring stage, together with measuring the indicators of efficiency of housing organizations, reasons for specific changes were analyzed. The developed procedure of economic-sociological monitoring included complete interviews with the participants of the experiment, analysis of a large number of economic and financial documents, regular meetings with housing workers at different levels, and mass resident surveys. It made it possible to build a picture of institutional changes in city housing from 1992 to 1996.

§3. Assessment of the Privatization Potential

The privatization potential of the population was assessed at all stages of monitoring. In housing, it manifested itself first of all in privatization of dwellings and establishment of condominiums, i.e., in formation of a class of private owners. For the population, the main motive for participation in privatization was a change in their material status. If in the course of the market transformation the family's material status improved, then the privatization potential increased and embraced an increasing proportion of the social-economic structure of the population. Exhaustion of the privatization potential in housing manifested itself in a decreasing level of privatization of dwellings. It took place when the market changes no longer led to the growth of material wealth for the main part of the population.

For this reason, assessment of the privatization potential was built on the basis of the classification of a family by its socio-economic status. Information about a family's economic level was received in the course of the resident questionnaire survey at the first stage of monitoring. It was representative of the population of a big Russian city of the period

Two groups of indicators, housing standards and property-income level, were used to measure the economic status of a family.

It was relatively easy to determine family housing standards in the course of the interviews. They were presented in the form of factual data, i.e., floorspace, number of rooms, presence of amenities, communal/non-communal dwelling, right of disposal (depending on whether the dwelling was private, rented, or job-contingent housing). The families were divided into 8 housing groups on the basis of these 5 criteria. (Figure 2.1).

All families were divided into groups according to **the housing rights of disposal**. The rights of disposal of municipal housing residents differed as follows. If classified as responsible residents, they could exchange their dwelling for another, transfer it to the possession of their children, if they lived together, i.e., to use it at their own discretion. It could be said that their dwellings were their property, though it was not legalized. The owners of privatized dwellings had the same rights.

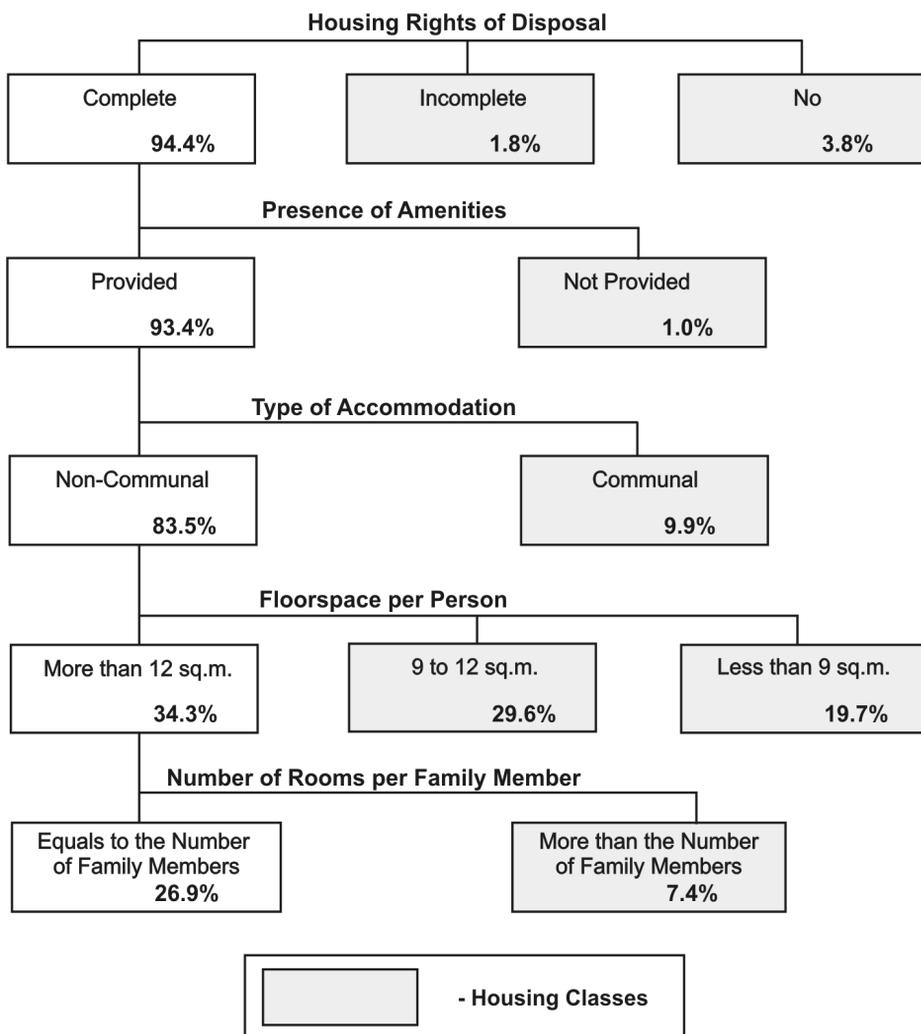


Figure 2.1. Classification of Families by Housing Standards, Novosibirsk, 1993

Families living in job-contingent housing had incomplete housing rights of disposal. They could not exchange their dwellings, although they could transfer it to the possession of their children, if they lived together. However, after 10 years of service such dwellings became non-contingent giving their residents the same rights with those living in state housing.

Families who rented their dwellings from the families represented by two groups described above were denied housing rights of disposal. As a rule, such rental relationships were not officially registered. The family renting a dwelling had to leave it on the first request of the responsible resident or the owner of a privatized dwelling.

Families who had no housing rights of disposal (rented housing) or whose rights were incomplete (job-contingent housing) were grouped separately; their shares amounted to 3.8 percent and 1.8 percent respectively.

Families who were the owners of privatized dwellings or responsible residents, those that had the most complete housing rights of disposal, amounted to 94.4 percent.

The next criterion for classification was the **Presence of Amenities**. In the houses under study, the share of families who lived in dwellings either not equipped, or poorly equipped (no bath, no hot water, sometimes no central heating or water supply system) was considerably lower than in some other residential areas of the city. It amounted to only 1 percent of the total number. Families living in the described living conditions were grouped together.

Next, fully equipped dwellings with full rights of disposal were subdivide into **communal** (when several families lived in the same dwelling and shared the kitchen, the toilet, and the bathroom) and **non-communal** (when only one family lived in the dwelling). The families living in communal dwellings were grouped together. Their share amounted to 9.9 percent.

The next criterion for the subdivision of fully equipped dwellings with complete rights of disposal of non-communal housing was the **share of floorspace per person**. Families whose level of provision with floorspace was lower than the official norm for provision in new housing, i.e., less than 9 sq.m, were grouped together; their share amounted to 19.7 percent.

The share of families provided with floorspace according to the established norm, from 9 to 12 sq.m per person, amounted to 29.6 percent and formed the next group of housing stratification.

Families whose provision with floorspace was higher than the official norm, i.e., more than 12 sq.m per person were subdivided into two groups depending on the **number of rooms** per person. For 26.9 percent of the total number of families, the number of rooms equaled the number of family members, while 7.4 percent of families had more than one room per family member.

Thus, all the families were divided into 8 groups according to their living conditions. These groups characterized the family status in housing stratification. At all the stages of monitoring, this housing stratification was used to determine the factors of housing privatization and its development in the course of the market experiment.

Further, on the basis of the classification of living conditions, a **housing standard indicator** was built. According to the values of this indicator, all families were divided into three groups:

- **High housing standard.** The floorspace per person is more than 12 sq.m., the number of rooms per unit typically exceeds or equals the number of people in the household, it is a one-family dwelling equipped with amenities.
- **Average housing standard.** The floorspace per person is from 9 to 12 sq.m., it is a one-family dwelling equipped with amenities.
- **Low housing standard.** The floorspace per person is less than 9 sq. m in an equipped one-family dwelling, or the dwelling is communal, job-contingent, rented, or not fully equipped with amenities.

The possession of property and the income level were the basis for determining the **property-income indicator**. To built this indicator, a resident survey was used as well.

It was difficult to receive reliable data on the income level of the population and its economic status, given the striking gap between the “new rich” and “new poor”, growing crime rates, and mutual mistrust and envy. Little could be learned through traditional methods using specific questions about the possession of various durable goods, the level and structure of family income, as well as its sources. They did not work under current conditions. Typically, people would flatly refuse to answer such questions.

Since it was extremely important to assess privatization potential in the course of monitoring, a specially developed method was applied to gather data on the family economic status. The questionnaire relied on a technique designed to “conceal” questions dealing with economic status. To begin with, a limited, consistently structured list of property was compiled that could serve as a basis for assessing the property status of the family. This set included:

- ***a minimum property set*** to satisfy the basic needs of the family (a refrigerator and a TV set);
- ***a standard property set*** to satisfy supplementary needs in food and/or recreation (a refrigerator, a TV set, a garden plot or a dacha);
- ***an improved property set*** which included the most expensive goods with the highest prestige value for a Russian family (a refrigerator, a TV set, a garden plot or a dacha, as well as a car and a garage).

Since the cash value of such goods is often impossible to estimate given galloping inflation, and since such questions often arouse suspicions, indirect indicators of the quality of goods were used. For example, in describing a refrigerator, the respondent was asked to state whether it was Soviet-made or imported, and whether it had a separate freezer compartment; for the TV set: whether it was black-and-white or color, Soviet-made or imported; for the garage: whether it was metal or permanent (brick or concrete) or both; for the dacha: whether it had one or two stories.

The position of these questions was fit into the general context of evaluating management and maintenance services. In other words, these questions did not appear pointed to the respondents but logically supplemented the other items. For example, the question of whether the respondent had a car or where his garage was located was asked in conjunction with questions about the traffic in the yard and the convenience of the location of the parking lot. Within the series of questions about the project and the respondents’ knowledge of it, the residents were asked whether it was necessary to develop cable TV and whether the family could receive cable TV programs, with an implicit query about the presence of a TV set and its quality. The questions about the refrigerator were mixed in with the discussion of the need for having window refrigerators and their adequacy for the families’ storage needs, together with the other refrigerators in the unit.

Information on income was drawn from the families’ own assessment as to which income group they belonged. The question was posed in the context of a discussion of whether the family could continue paying for the dwelling if housing fee were raised substantially. The information provided by self-evaluation was checked against answers to the question about the potential need for state housing allowances.

In this way the “sensitive” questions about property and income were uniformly distributed through the questionnaire and logically integrated into the subject of the survey. Usually they did not cause problems or tensions in the interview. It should be mentioned, though, that in one case out 100, typically in very affluent families, the alert respondents, when asked about the number and quality of refrigerators, would counter with the question: “Why do you want to know that? Is it related to housing maintenance?”. This suggests that the original precautions were not out of place. Generally, however, the method adopted enabled the interviewers to eliminate these problems.

According to the values of the indicators of property and income levels, families were classified into low, medium and high groups for each of the two indicators. Low group had a minimum property set and a low income level. Medium group was characterized by a standard property set and a medium income level. High group had an improved property set and a high income level.

The survey team expected to find that groups with a low housing level would also have low property and income status, and vice versa. The data, however, revealed that it turned out that both “rich” and “poor” were uniformly represented in groups with relatively poor and relatively good housing conditions (Figure 2.2).

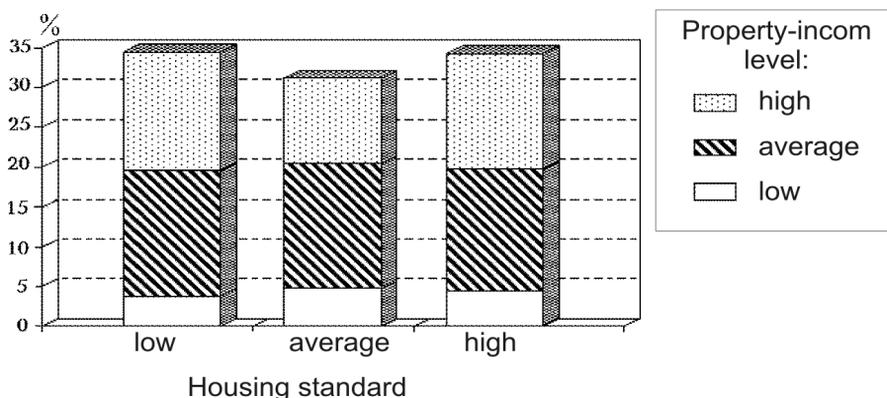


Figure 2.2. Classification of Families by Housing-Property-Income Standards, %

In stable market economies housing and material levels are normally consistent, that is, richer families have better housing and a larger set of high quality durable goods. This results from the fact that the level of income ultimately determines the family’s opportunities both in the housing market and in the durable goods market. In stable razdatok-economy countries, like Russia before perestroika, housing and material levels were usually related because both depended on the family’s position in the social hierarchy. It was the common result of operation of a unified mechanism of distribution of housing, goods, status, etc.²

The discrepancy between housing and the property/income level reflected the transition situation where the former methods of distribution

² O. Bessonova, *Housing: the Market and Distribution* (Novosibirsk: Nauka, 1993), pp.111-127 (in Russian).

are no longer operating, but new market forms have not yet emerged. Since little new housing is now being built, free allocation of housing has practically come to a halt, while the housing market is only beginning to develop. The existing distribution of families by housing standards remains in place from an earlier period and is changing very slowly. By contrast, levels of income and material status are directly related to the economic behavior of the family. Rapid changes in these areas represent the breakdown of the former system of employment and income generation and the rapid development of a new system. Therefore, current income distribution and property standards mirror the fast-changing situation.

In other words, the housing distribution is left over from the past; changes are still insignificant. However, the level of income and material standards are determined by other factors and are changing rapidly. For this reason the survey team developed a relatively complex, 9-group matrix reflecting the transitional situation in order to place the about economic level into a meaningful context. The matrix is described below (Table 2.4.).

Table 2.4.

**Classification of Families by Housing-Property-Income standards,
%, Novosibirsk, 1993**

Property-Income Level	Housing Standard			
	High	Average	Low	Total
High	4.4	4.7	3.7	12.8
Average	15.4	15.7	15.9	47.0
Low	14.6	10.8	14.8	40.2
Total	34.4	31.2	34.4	100.0

**Group 1 (4.4%) — high property-income
high housing standards**

At the top is a small group of families that can be described as prosperous. Two families out of every three in this group have two refrigerators, one usually imported, and as many TV sets. Every other family has a car and a permanent garage, and 80 percent own a dacha with a garden plot. The income level is the highest of all groups. The number of rooms per unit typically exceeds the number of people in the household. This group typically includes former members of the nomenclatura (party and government elite) who have retained excellent housing and property benefits while either retaining well-paid government jobs or filling lucrative positions in newly emerging business organizations.

**Group 2 (4.7%) — high property-income
average housing standards**

Next from the top is a group of families with a high property-income level and average housing standards. As a rule, these are representatives of the former, soviet pre-perestroika “middle class”. These families obtained housing from the state in accordance with established norms (about 10 square meters per resident), accumulated considerable property over the years and received good jobs in new prospering organizations.

Representatives of this group are primarily the most educated, experienced, and highly-qualified specialists of mature age.

**Group 3 (3.7%) — high property-income
low housing standards**

This group is characterized by a high property-income level, and a low housing standard. This group mostly includes young families who were not able to get housing under the old system. Although they now have high incomes, they have not yet acquired corresponding housing. As a rule, these are the families of young businessmen who started establishing their own firms and thus lost access to state housing. They usually rented the dwellings in which they lived. With the development of a housing market, this group is likely to generate the highest demand for housing of high standards and will be able to join the first of the mentioned groups in the future.

**Group 4 (15.4%) — average property-income level
high housing standards**

Families from this group have high housing standards and an average property-income level. Typically, they have a set of durable goods standard for Russian families, a color TV set (30 percent of families also have a black-and-white TV set) and one or two refrigerators of good quality. As for more expensive and prestigious goods, families in this group have either a dacha, or a car, but not both, as is often common for the representatives of the groups described above. This group represents a segment of the top stratum in the former social structure. However, these families, unlike the first group, lack opportunities for drawing high incomes because of age or qualifications.

**Group 5 (15.7%) — average property income level
average housing standards**

This group is characterized by both average property-income level and housing standards. It represents the section of the soviet “middle class” that has managed to preserve its level of standards at the initial stage of reforms. These are typically white-collar workers and working pensioners.

**Group 6 (15.9%) — average property-income level
low housing standards**

This group is characterized by an average property-income level and low housing standards. It mostly comprises families of aging blue-collar workers with a moderate income, or families of young white-collar workers who have not been allocated housing from the government.

The remaining three groups (7, 8 and 9) are all marked by low property-income levels. The typically have one low-end refrigerator, an old soviet-made black-and-white TV set and do not own a car, dacha, or garage. However, 21 percent have garden plots where they grow greens and vegetables.

**Group 7 (14.6%) — low property-income level
high housing standards**

This group is characterized by high housing standards and low property-income level. This group is mostly made up of non-working pensioners who do not have children, or who live apart from them. Their present housing may have been provision for a larger family but over the years, the dwelling has become occupied only by the retired couple or a single pensioner. Given the constant rise in real estate prices, the high housing standards of these families shelter them from poverty and could enable them to join groups with a higher income/property status if they decide to sell or lease their unit and move into a smaller one.

**Group 8 (10.8%) — low property-income level
average housing standards**

Since the income and economic levels of this group are quite low, and they lack the housing “nest-egg” of the previous group, they are less immune to the adversities of the current economic situation. The “social portrait” of the group is similar to that of the seventh group.

**Group 9 (14,9%) — low property-income level
low housing standards**

Families from this group are characterized with low property-income level and low housing standards. Families from this group were provided adequate housing according to former norms, having on average less than 8 square meters of floorspace per person. At the same time, 82 percent of families from this group self-assessed their income level as low. The group is mostly made up of families of disabled persons, large families, those with young mothers staying home with a child, or single-parent families.³

A prediction of the limiting values of the population housing privatization potential was built on the analysis of families’ housing-property-income standards on the eve of the reform. Privatization potential was most influenced by the groups who were characterized with better housing standards and better property-income level at the same time. Their sum did not exceed 40 percent.⁴

* * *

A variety of procedures that were used in the course of the economic-sociological monitoring of the market experiment in housing and the set of developed indicators and objects for observation, made it possible to

³ For additional information on the property-income level and housing standards of the described groups, see O. Bessonova and S. Krapchan (Kirdina) “Participation of the Population in Housing Privatization”, *Sotziologicheskkiye Issledovaniya* (Sociological Research), No. 8-9 (1994): pp. 27-41 (in Russian).

⁴ For details of the assessment, see O. Bessonova and S. Krapchan (Kirdina) “Tendencies in Housing Privatization: Sociological Analysis”. *EKO*, No. 6 (1993): pp. 52-65 (in Russian).

adequately operationalize the concept of institutional changes, presented in Chapter 1. The developed procedure allowed the researchers to single out stable tendencies in the transformation of one of the branches of Russian razdatok-economy in the course of the market reforms.

Chapter 3

The Defects of the Administrative Management Model

Both periods of stable operation and of institutional changes can be distinguished in the institutional development of Russia. Periods of institutional changes start with a crisis in the management model at the corresponding historical stage.

Crisis in the Russian razdatok-economy in the end of the XX century was the cause for the market transformation, much as the crisis in the serf management model in the end of the XIX century led to attempts to build capitalism in Russia.

As discussed in Chapter 3, the basis for the crisis in the administrative management model has been the functioning of the financial mechanism which leads to a concentration of capital at the top management level at the sacrifice of basic production activities.

§1. The History of Housing Economy in Russia

The housing economy in Russia is the branch of economy which is involved in maintaining the state housing. Its structure and functioning is similar to that of other branches of the Russian razdatok-economy.

The operation of housing maintenance organizations in the entire country was regulated by the state plan. Central state power bodies determined the amount of material, financial, and labor resources (*distributions*) necessary to the branch and set the rules for their use. Resources were delivered to the state-administrative housing organizations which had a hierarchical structure. These organizations had to guarantee the fulfillment of maintenance norms (*tributes*) according to the amount of resources.

State housing stock was the object of maintenance. In regard to that, the normative set of services to be rendered to the residents of state housing stock was determined. If the maintenance standards were not observed and problems emerged, the feedback mechanism in the form of complaints was initiated. Residents complained to maintenance organizations, or directly to the central state power bodies, if their complaints were not resolved at the level of the maintenance organizations. If the branch leaders could not provide the necessary maintenance standard within the amount of allotted resources, the mechanism of complaints was also initiated. But in this case it was initiated by the branch leaders. They appealed to the higher level organizations and to the central bodies which determined the principles of operation for maintenance organizations. Central state power bodies considered all types of submitted complaints and took them into account in balancing the amounts of resources given to the state-administrative organizations with the *tributes*, i.e., the maintenance level, they had to provide (Figure 3.1.).

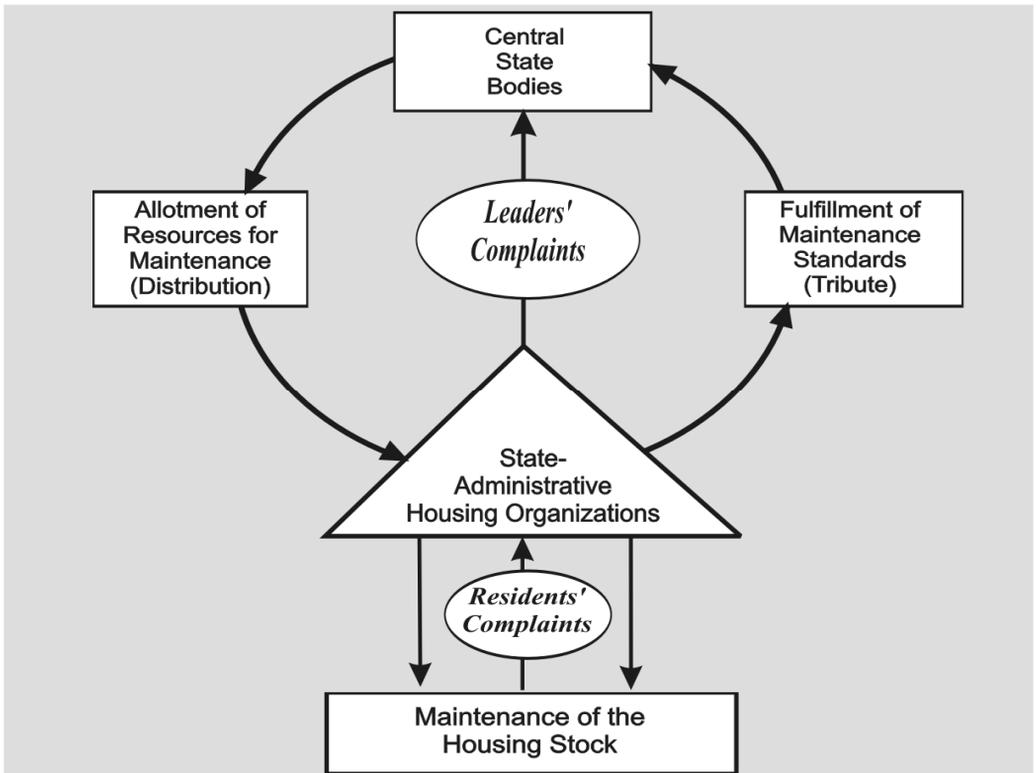


Figure 3.1. The Structure of Housing as a Razdatok-Economy Branch

The formation of the state housing system and administrative management system characteristic of it were regulatory. It was accompanied with an increase in the public housing stock in cities, the development of a communal infrastructure, and an increase in the level of difficulty of the maintenance of the housing stock. Several periods are distinguished in its development.

Immediately following 1917, Novosibirsk's housing stock, like that of most other large Russian cities, consisted of private one- or two-family dwellings without basic amenities and nationalized, masonry, multifamily apartment buildings controlled by the local Soviets.. With the advent of industrialization, enterprises began constructing housing for their work force. Investment in this type of housing was an investment in industry. Nationalized houses and houses built by enterprises formed the state housing sector. According to the data of 1926, the share of state housing amounted to 17.8 percent, with 42.4 percent of city population living in them.⁵

Most of state housing in cities was maintained (75 percent in 1931) by housing-rental cooperatives (HRCs). They began to emerge in 1921 and represented "independent resident organizations, which managed their houses on a lease from local Soviets and under their control", as was stated in their charters. HRCs maintained the housing stock on a self-repayment principle. Thus, state organizations maintained only a quarter of the housing stock of local Soviets, or less than 5 percent of the country housing stock.

In the beginning of the 1930s, supporters of the administrative management model came into conflict with supporters of housing cooperatives. The basis for this conflict was a disagreement between the state character of housing ownership and the cooperative (non-state) management model. The conflict was publicized and caused numerous check-ups on the condition of housing stock maintained by HRCs. These check-ups were done by state power bodies and Workers-and-Peasants Inspections.

In 1937, HRCs, as a housing maintenance management form, were liquidated according to the resolution of the Central Executive Committee and the Council of People's Commissars of the USSR "On Preserving the Housing Stock and Improving Housing in Cities." It was said in the resolution that the housing stock "was in the hands of uncontrolled, small groups of residents independent of the local Soviets and united into housing-rental cooperatives on a formal basis".⁶ Maintenance of these houses was transferred to state organizations.

Thus, formation of the state form of managing housing maintenance was taking place under conditions of initial dominance of non-state forms which came into conflict with each other. The victory was won by state management form which became dominant.

From the end of the 1930s to the 1970s, the state housing system was in the process of further development. Over this period, all state housing was maintained by *domoupravleniyes* (< Russ *dom-* house + *-upravleniye* management). They were established by the local Soviets or by some enterprises. Necessary material and technical resources were allotted to

⁵ *Large Soviet Encyclopedia*, 50 vols. (Moscow: Sovetskaya Entziklopedia, 1932), vol. 25, p. 449 (in Russian).

⁶ O. Bessonova, *Housing: the Market and Distribution* (Novosibirsk: Nauka, 1993), pp. 111-127 (in Russian).

domoupravleniyes. They were financed through housing fee collected from the residents of the maintained housing stock. Housing fee rates (tariffs) were set centrally by the state, operated on a nation-wide scale and covered the major current housing maintenance expenses at that period in time. Capital repairs expenses were covered by the income tax collected from the population.⁷

When the economy had been restored after the Second World War, serious housing problem emerged. It was related to the growing complexity of the employment structure of the city population. The proportion of the population employed in services increased. This development called for innovative ways of providing housing as housing construction was financed from the center through *vedomstvov* and enterprises. Khrushchev's 1960s housing reform addressed this challenge. A resolution "On the Development of Housing Construction in the USSR" was issued by the Central Committee of the Communist Party of the Soviet Union and the Council of Ministers of USSR.

As a result of the reform, state housing financing began to be directed not only to the *vedomstvov*, but to the local budgets of territorial bodies of power. Local Soviets were given sole authority over housing construction and maintenance in their territory. Special housing construction, maintenance and dwelling allocation divisions were set up within the city administration. Dwellings were allocated according to housing waiting lists and normatives.

During this period, municipal stock began to grow not only through new construction of its own, but also through obligatory contributions from new housing built by enterprises. Dwellings formerly controlled by enterprises began to be transferred to the local Soviets. Cooperative construction using citizens' resources and government loans was allowed and supported by the government. From 1917 to 1941, 127, 9 million square meters of total dwelling space was put into operation. From 1956 to 1975, 10 times as much was built, i.e., 1284.2 million square meters.⁸ Thus, the scale of state housing stock increased sharply during this period. (Figure 3.2.).

Utility service lines within the buildings became more complicated in this period. In 1970 the share of city state housing stock equipped with a centralized water supply system was 79 percent, centralized sewerage system - 76 percent, and centralized heating system - 74 percent.⁹

By the middle 1970s, the quality of housing improved and the housing infrastructure became more complicated. For this reason the housing fee could no longer cover all maintenance expenses, since the housing fee rate had remained the same since 1928.

⁷ O.Bessonova, The Phenomenon of Free Housing in the USSR. *Izvestiya Sibirskogo Otdeleniya Akademii Nauk SSSR. Seriya Ekonomiki i Prikladnoi Sotziologii (Proceedings of the Siberian Branch of the USSR Academy of Sciences. Economics and Sociology Series)*, No. 3 (1988): p. 43-49 (in Russian).

⁸ *National Economy of the USSR in 70 Years* (Moscow: Finance and Statistics, 1987), p. 508 (in Russian).

⁹ *Ibid.*, p. 521.

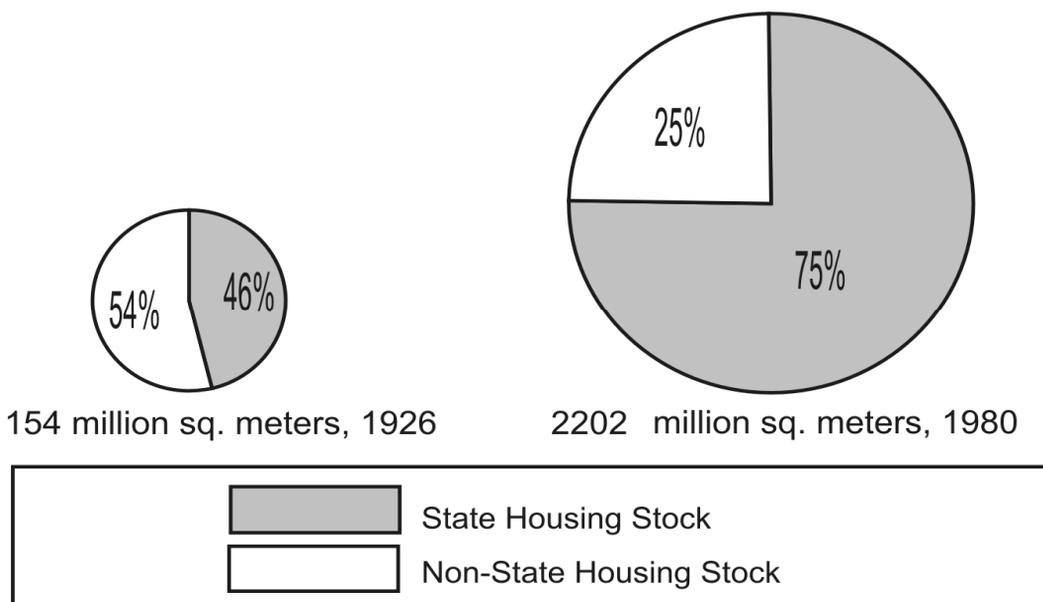


Figure 3.2. Changes in the Scale and Structure of the City Housing Stock from 1926-1980

To increase the housing fee rate would have called for a revision of all financial, pricing, and social policy. Thus, the state began to finance state housing maintenance additionally from the budget.

With the growth of state housing stock, complication of its structure, and inclusion into the sphere of budget financing, the *domoupravleniyes* were no longer able to cope with the tasks of housing maintenance. New technical devices came into demand and requirements upon qualification of the service staff increased. In this connection the system of *domoupravleniyes* was reorganized. A ladder-type hierarchical structure of managing housing maintenance was created in cities on the basis of the former *domoupravleniyes*.

In the 1970s state-administrative organizations flourished in all economic spheres, including housing maintenance. By the end of the decade, the main features of a state housing system typical of the phase of sustainable development of the *razdatok*-economy were conclusively shaped. These features are presented here.

1. A unified maintenance normative is sustained. The amount of budget spending per square meter of state housing is determined on its basis.

2. The state budget is the main source of financing, i.e., the state gives a budget subsidy for housing maintenance. From 1970 to 1986 state spending on maintaining the housing stock increased almost threefold and came to 9.8 billion rubles annually. By 1986, the state share of housing maintenance expenses was more than 90 percent. During the same period housing became a branch of the economy fully subsidized by the state.

3. Income of state housing maintenance organizations apart from budget subsidy, i.e., collected housing fee, leasing non-residential premises in dwelling houses, rendering paid services to the population, etc., is regulated by unified tariff rates. The amount of income is planned and taken into account in determining the amount of state budget subsidy. All state housing organizations have an equalized (with the help of the budget subsidy) amount of planned state housing maintenance expenses.

4. The state controls the quantity and structure of the employed and the amount of wage rates by means of staff rosters.

5. Material resources, including office premises, equipment, materials, tools, etc., are allocated on the basis of set normatives, primarily in kind.

6. State housing maintenance organizations are assigned to a specific part of the housing stock. They can not change the object of their maintenance themselves, or be involved in activities, others than those listed in the instructions.

7. Residents of state housing have access only to the services rendered by the maintenance organization to which their house is assigned. Authorization for a dwelling, a document which gives a right to receive and live in state housing, is kept by the corresponding housing maintenance organization, thus providing for the said attachment.

8. The amount and quality of housing services are determined by the set normatives. Resident complaints signal deviations from the accepted housing maintenance standards. For higher level organizations, complaints serve as an instrument controlling fulfillment of normatives and regulating activities of lower level housing organizations.

Thus, state-administrative organizations were operating in housing at that time. Their task was to provide the normative level of maintenance and react to residents' complaints in a timely fashion..

From the middle 1980s, housing entered a period of crisis. State-administrative housing organizations could no longer cope with the task of maintaining the housing stock. The crisis manifested itself in "continuous worsening of the quality of services, which was low to begin with."¹⁹ It was constantly stressed in the media, that "the state allocates enormous sums of money for housing maintenance, which disappear without a trace. Neither the quality of maintenance, nor the reliability of housing-maintenance organizations improved."²⁰

An endless flow of complaints to the state power bodies, the media, the Constitutional Court, from the time it was established, served as an indicator of a disastrous state of affairs in housing maintenance. At the same time, complaints were no longer able to function as the feedback mechanism, as state power bodies were unable to control where the subsidies were directed and how efficiently they were spent by the housing organizations.

At the first stage of monitoring, the structure of housing organizations and the structure of their management were analyzed to find out the causes for the crisis in housing.

¹⁹ I. Mintz and N. Pinegina, Basic Principles in Financing Housing-Communal System and Payment for its Services, *Voprosy Ekonomiki* (Questions Of Economy), N 7. (1993): p.125 (in Russian).

²⁰ G. Yavlinsky and S. Ivanenko, Privatization in Moscow: In Search for the Ways Out, *Moscow News Weekly*, N 46 (1994), (in Russian).

§2. The Management Structure in the Housing Economy

Russian housing economy is the totality of housing maintenance systems in cities. City housing maintenance systems differ by the structure of housing sectors. Currently, in Moscow and St. Petersburg, for example, the housing sector is mainly represented by municipal stock (up to 70 percent). In small cities, the individual housing sector dominates. In industrial cities built on newly developed territories, enterprise-owned housing prevails. These cities most often represented so-called “cities-factories”, where all housing belonged to one or several enterprises.

Market reform in housing was aimed at changing the organization of housing maintenance systems in cities in order to overcome the crisis and improve their effectiveness. It is evident that the more complex the structure of housing sectors in the city is, the more the processes that are taking place reflect the picture of market reforms in Russian housing as a whole. From this point of view Novosibirsk presents a unique place to observe the process of reforms in housing. It is a large industrial and scientific center with a population of about 2 million people. All housing sectors are represented in the city. It has been determined that housing sectors in Novosibirsk are represented in the same proportions as in Russian housing as a whole. In the 1990s, municipal and enterprise-owned housing stock made up for 46 and 35 percent of the total respectively, cooperative housing comprised 8 percent of the total housing stock, and individually occupied housing accounted for 11 percent. At the same time, the historical age of Novosibirsk, the city is about 100 years old, coincides with the life time of the Russian state housing economy. Thus, all historically relevant stages in reforming the housing system were observed in Novosibirsk.

Thus, housing in Novosibirsk can serve as a representative of Russian housing as a whole. Its problems are typical of the state housing system of the majority of Russian cities.

On the eve of the market reform, state housing maintenance system had two main sectors. One of them was represented by housing organizations that maintained enterprise-owned housing stock while another one was represented by organizations that maintained local, i.e., state-owned housing stock.

Maintenance of cooperative housing was controlled by cooperatives. As a rule, cooperative was represented by one multistory building. A cooperative had its own maintenance unit funded by the residents and headed by a chairperson. This maintenance unit kept the entrances and adjoining yard clean, and maintained the utility service lines within the building. This work was generally done either by members of the cooperative (pensioners and moonlighting workers with applicable occupations) or by outside workers who combined the job in the cooperative with their primary job elsewhere. For example, specialists from the municipal or enterprise-owned housing maintenance sector often worked for the housing construction cooperatives as plumbers and electricians. All the upkeep of individually occupied houses and their adjoining yards was the occupant’s responsibility.

Enterprise-Owned Housing Sector

Enterprise-owned housing stock was built by state enterprises and organizations which possessed and maintained it at their own expense.

Enterprise-owned housing stock was maintained by Housing and Communal Boards (HCB) of industrial enterprises that controlled the housing. HCBs had to maintain not only the enterprise's housing, but also its hotels, children's facilities, hostels, community centers, etc. HCBs represented organizations of state-administrative type. Housing maintenance units (HMUs) were the bottom level industrial organizations. The management structure in the enterprise-owned housing sector is presented in Figure 3.3.

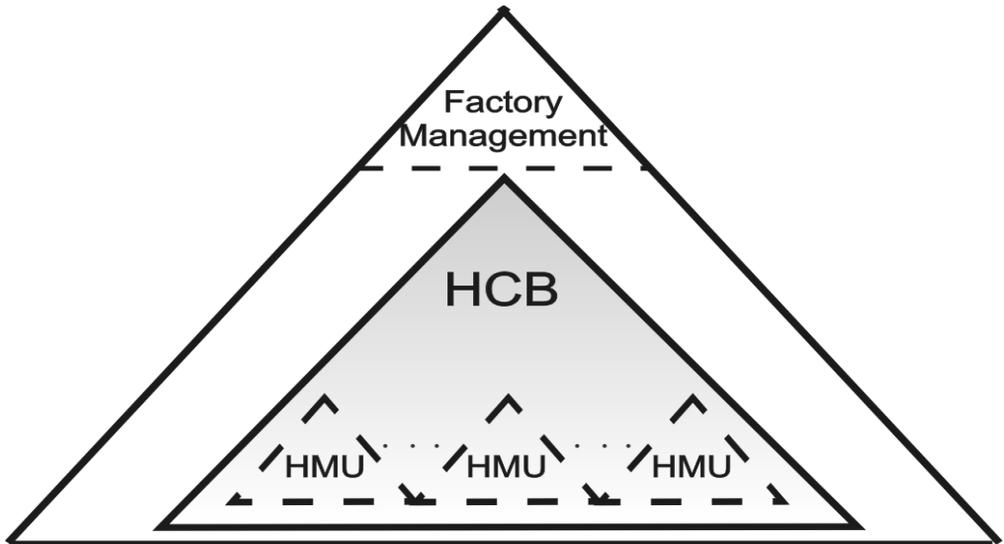


Figure 3.3. The Management Structure in the Enterprise-Owned Housing Sector

The enterprise-owned housing sector had its own specific features. Its maintenance could not be always singled out in its “pure form”. For example, engineering utilities in the housing stock were maintained by workers of power shops which were not a part of the same HCB. The same workers simultaneously maintained factory engineering equipment.

In essence, HCBs were factory shops. For this reason their work conditions, financial and manpower resources, materials base and work organization were similar to those throughout the rest of the enterprise.

On the one hand, family members of enterprise employees or those who transferred to it from the enterprise for easier working conditions, worked at housing maintenance units. On the other hand, some of the workers viewed their job in the unit as a step from which to move upward into the enterprise itself.

Maintenance units' employees were one of the lowest-paid groups at the enterprise. If the enterprise used a 4-category wage system, for example, they belonged to the fourth, or lowest category.

Employees of enterprise-owned housing maintenance units shared most of the privileges enjoyed by other enterprise personnel: food and consumer goods, enterprise transportation, free or reduced-charged access to enterprise consumer facilities, etc.

Municipal Housing Sector

The municipal housing stock was owned and maintained by local power bodies for which they received subsidies from the local budget. Local

housing stock was increased through construction at the order of local power bodies, obligatory contributions from new housing built by enterprises, as well as through the transfer of enterprise-owned housing stock to local Soviets. From 1991 the local housing stock in Russian cities was termed “council housing”, by analogy with the West. A more appropriate term is **municipal housing**, since the Russian version demonstrated important differences.

The chief differences between Russian municipal housing and Western council housing are the different amounts of housing each controls and the differing authority the city administration in Russia and local councils in the West exercise over this housing.

* In Russia, municipal housing is the most widespread type of housing. It accommodates over half the total city population, whereas in the West, with few exceptions, council housing's share is relatively small.

* In Russia the maintenance of the municipal stock is regulated by a unified national policy. City administrations in Russia cannot change the housing fee and work levels, construction standards, or heat charges on their own initiative. For this reason, while municipal stock in the West varies in size and management model, in Russia the model is the same everywhere, as it was instituted in the late 1930s.

In Novosibirsk the municipal housing maintenance system was established in 1937. At that time, the Novosibirsk Housing Board served 185,000 square meters of total dwelling space and was staffed with 542 workers. It included the Building Repair Office, *Gorzhlisnab* as its materials supplier, and the Budget Planning Division. Three District Housing Boards were subordinated to it, which, in turn, had 49 *domoupravleniyes* under them.

In 1977 the Housing Board was reorganized as it became necessary to maintain an increased city housing stock and all-district housing infrastructure. Industrial-Housing Repair Trusts (IHRT) were set up in all 10 administrative districts of the city. These trusts took on the functions of the former District Housing Boards. These trusts represented state-administrative types of organizations. *Domoupravleniyes* had administered the local housing stock in their territory. Now, they were transformed into Housing Maintenance Units (HMUs) and subordinated to the trusts. City Industrial-Housing Repair Board (IHRB) headed the IHRTs.

By 1989 the Novosibirsk Industrial-Housing Repair Board administered 9,146,000 square meters of total floorspace, (50 times the pre-war level) and had 11,108 employees. Along with the Repair Building Office, it administered the City Technical Inventory Office, the Technical Supervision Office for Capital Construction, and the Scientific Management Laboratory.

Thus, in 1989 the management structure of the local (municipal) housing sector had three hierarchical levels: the housing board of the city coordinated the work of 10 housing trusts, which incorporated approximately 80 HMUs on the bottom level (Figure 3.4).

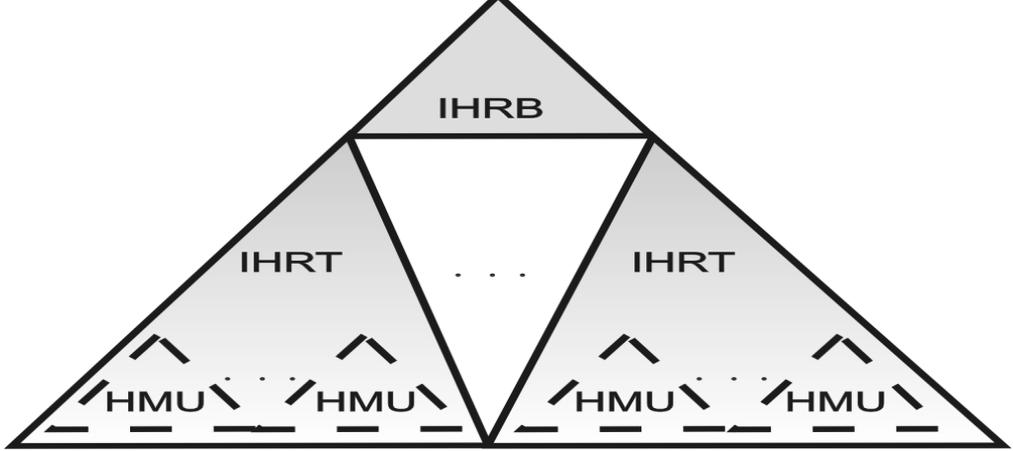


Figure 3.4. The Management Structure of the Municipal (Local) Housing Sector

Operation of state-administrative organizations in both sectors of housing was determined by the features of the razdatok-economy institutional environment and built on the basis of several general principles. These are:

- a unified national policy of housing fee and lease rates for the use of non-residential buildings;
- operating conditions established on the basis of unified norms issued by the Ministry of Housing and Communal Services, which set the relationship between the work load and expenses on carrying it out;
- normative state regulation of wage rates on the basis of the standard fee/skill manual that defines qualifications standards for all occupational groups and wage rate standards by sector, fixed according to work load and level of effort, established at the State Committee for Labor and Social Affairs;
- staff rosters and official instructions developed for specific housing maintenance organizations. These documents linked state standards and norms with specific conditions; also, they reflected specific features of the maintained stock;
- a staff roster listed all levels in the job hierarchy according to categories, qualification requirements (such, as class and rank), normative number of employees, salaries, bonuses as a percentage of salary, and the total wage fund for each job position;
- job manuals described line hierarchy, working hours, qualification requirements, and job duties.

Organizationally, municipal and enterprise-owned housing sectors were subordinated to the central (union and republican) power bodies. Interaction between the top and bottom management levels of state housing organizations in both sectors was based on the administrative management model.

Under the administrative model, bottom level units were not economically independent. The budget of their income and expenses was an integral part of budgets of the organizational-management structures to which they were subordinated. Thus, budgets of state-administrative housing

organizations were hierarchical. The flow of financial resources within the hierarchical budgets was set by the normative order. At the same time, the real financial mechanism could differ from the normative one. The next goal of the first stage of monitoring was to reveal the real financial mechanism of a crisis period.

§3. Bureaucratic Financial Mechanism

The financial mechanism of the administrative management model was analyzed on the basis of financial flows in housing trusts from the moment when they appeared in the system of city housing maintenance.

When trusts were established, each *domoupravleniye* was already predominantly financed directly from the city budget as the collected housing fee covered less than a third of housing maintenance expenses. The amount of financing was determined on the basis of standard staff rosters, wage rates, and standards of material resources for the required work to be done.

When housing trusts were established, they received the amount of financing and a sum of standard staff rosters of all *domoupravleniyes* subordinated to them. In the new housing management system, *domoupravleniyes* were transformed into house maintenance units (HMU). Being the bottom level units of the trust structure, former *domoupravleniyes* lost their independence in managing financial resources. Now, the trust administration decided what a HMU should do and how much it could spend.

At that period, provision for work was made in kind. This was the main reason why the financial mechanism functioned in the sphere of distribution and redistribution of the wage fund between different workers and management levels.

In the 1970s the state-administrative organizations received the right to retain a part of the unspent wage fund instead of returning it back to the budget, as was commonly practiced in the 1960s. The top management level was in charge of the part of wage fund saved at all levels of state-administrative organizations. In housing trusts, the top management level was represented by the trust administration. The mentioned right allowed the maintenance organizations to redistribute resources between its levels within the set standard, taking into account the specific features of the housing stock they maintained.

From the moment they were established, trusts began to establish specialized services subdivisions with all-district functions. To establish new intratrust structures the positions within the standard trust staff roster were restructured. It included the staff rosters of HMUs subordinated to it. In doing so, the positions of corresponding workers (warehouse men, house painters, carpenters, plumbers) were withdrawn from the staff rosters HMUs had and transferred to the staff rosters of newly established trust subdivisions. As a rule, their number of wage rates was less than that at a HMU. For example, in 1977, in one of the city housing maintenance trusts a warehouse was centralized, i.e., transferred from the HMU to the trust level. In doing so, instead of 8 warehouse men from the HMU with the monthly wage fund of 598 rubles (without bonus payment), 5 positions were kept at the trust level (a warehouse manager, a goods manager, 2 warehouse men, and a forward agent) with the monthly labor wage fund of

488 roubles.²¹ In this particular case, the value of the “saved” wage fund at the trust’s disposal accounted for 110 rubles a month. Thus, centralization of a part of the maintenance functions at the trust level represented the first way of centralizing a share of money allotted to the bottom level organizations at the trust level.

In the 1970s, there was a deficiency of personnel in housing organizations. For this reason, a team work system for yard-cleaners, metalworkers, electricians, etc. began to be actively used. The essence of a team work system was that a team, with fewer workers than was specified in the staff roster, carried out all the work load according to the staff roster. For example, by 1st January, 1977, there were only 1043 yard-cleaners in the city housing maintenance organizations instead of 1523 according to the staff roster. Thus, 480 plots remained uncleaness. When the team work system was introduced, teams of yard-cleaners began to maintain these plots. So, the work load of each yard-cleaner increased.²² Each team worker received additional payment to the staff roster wage rate. Nevertheless, the sum of additional payments was less than the normative fund for the missing workers. Collective forms of labor organization made it possible to form the second source of additional financial resources that the trust administration received at its disposal from the bottom level organizations.

According to the normative order of wage payment, workers had to be paid bonuses, a share of the basic wage rate, for the quality of their work. Budget subsidies received by housing trusts to pay wages to their workers usually included the total amount of bonuses to be paid to the workers. The quality of work done by bottom level organizations was assessed by the trust administration. It deprived the workers of bonuses if the quality criteria and standards of behavior (drinking alcohol, absence from work without excuse, etc.) were not observed. Thus, usually not all the bonus fund was paid. For example, in the beginning of the 1980s, assessment of HMUs’s work was built on a point system. Ideally, it was possible to receive full bonus if the work was assessed at 160 points. As a rule, it was very difficult to get that many points. For this reason, HMU’s staff often did not receive the bonus to the full.²³ Thus, the system of bonuses and non-paid bonuses was the third way to increase the centralized share of the wage fund, which was at the disposal of the trust administration.

Thus, the financial mechanism used in the housing administrative management model made it possible to redistribute a share of the wage fund allotted to the bottom level organizations in favor of the trust administration, in the form of so-called “saved money”. One part of the “saved” wage fund was used for the payment of quarterly and annual bonuses to the workers at all levels. Another part of the unspent normative wage fund of bottom level organizations (HMUs) served as a source of wage fund for future, new management links and trust subdivisions. It amounted to 18 percent (Table 3.1).

²¹ V. Vashchenko, *Scientific Labor Organization in Housing* (Novosibirsk: West Siberian Publishing House, 1983), p. 33 (in Russian).

²² *Ibid.*, p. 41.

²³ *Ibid.*, p.41.

Table 3.1.

**Unspent Normative Monthly Wage Fund of HMU,
Novosibirsk, 1992.**

	HMU-3	HMU-55	HMU-26
Wage Fund of the HMU according to the Staff Roster, thousand rubles	444.6	460.9	601.2
Actual Wage Fund in the HMU, thousand rubles	372.2	366.0	486.3
Share of Unspent HMU Wage Fund, (percent)	16	21	19

To better understand how the bureaucratic financial mechanism functioned, special calculations of the unspent monthly wage fund were done for all categories of HMU workers at the first stage of monitoring.

For this purpose, the normative wage rate provision for each category of workers at the bottom level of housing organizations was calculated. Wage rate provision was determined on the basis of wage fund according to the staff roster and the set amount of bonuses. The normative bonus rate for management personnel and resident relations personnel was 50 percent on average, for current repair personnel it was 40 percent, and for operating personnel it was 10 percent. If there were vacancies, normative wage rate provision for each employed had to be proportionally increased, as all the work load had to be done by the workers on the staff. For example, if the number of workers was only half of the staff roster figure, then each employed had to receive double payment.

Real wage rate provision was determined as the relationship between the wage rate according to the pay sheet and the normative wage rate, including the base pay and a monthly bonus. A share of the unspent wage rate for each category of personnel was calculated as a difference between the normative and the real provision in relation to the amount of the normative wage rate provision. The results of these calculations are presented in the Table 3.2.

Table 3.2

**Unspent Monthly Wage Fund of the HMU for Different
Categories of Employees, %, Novosibirsk, 1992**

	Staff roster Staffing	Normative Wage Level per person	Real Wage Level per Person	A Share of Unspent Wage Rate
Management Personnel	81	123	109	11
Resident Relations Personnel	80	125	104	17
Current Repair Personnel	40	250	159	36
Operating Personnel	42	238	211	11

The average value of the unspent normative wage fund was calculated on the basis of data presented in Table 3.2 for all categories of workers. It amounted to 18 percent. It should be noted, though, that the amount of the unspent wage fund was considered only for staff and temporary

workers.

Underpays to part-time workers, mostly represented by operating personnel, were not taken into account. Part-time workers did not receive bonuses specified in the staff roster and held incomplete wage rates. With regard to the above comments, the value of the unspent normative wage fund for operating personnel was considerably understated.

Thus, the conclusion that bottom level units and all categories of those employed in housing were regularly underpaid is supported by the detailed calculations that were conducted.

In the 1970s and 1980s the described financial mechanism mostly concerned the wage fund, while from the early 1990s it spread to include the general financial budget of the trust.

The rules of spending the budget of housing trusts were such that there was a sharp distinction between the wage fund and other items of spending, i.e., there existed a target principle in spending the money. In the 1990s, when wages in organizations subsidized from the budget began to sharply lag behind the wages in other branches of industry, housing trusts were permitted to spend a part of their budget to increase the wage rates for their employees.

The wage fund was increased through supplementary meal allowances from the budget of general expenses. Thus, instead of the wage fund a new category of consumption fund emerged in the practice of normative planning. This consumption fund united all forms of income such as the wage rate, financial aid, and supplementary meal allowances, etc.

All categories of workers received supplementary meal allowances depending on the number of days they worked. At first, the daily rate of supplementary meal allowances was the same for all trust employees and determined by the trust administration, taking into account the amount of the total sum of unspent budget that could be spent on that. Later, supplementary meal allowances began to be paid taking into account each calendar day of a month. In 1994, some trusts introduced a differentiated scale of supplementary allowances. They were higher for the management personnel and lower for ordinary employees. Payment of these allowances began to be dependent on the results and quality of work of ordinary workers.

Usually, supplementary meal allowances were paid from the “other expenses” item of spending and amounted to half of it. A share of supplementary meal allowances amounted to 7 percent in 1993 and in the first half of 1994 it was 10 percent of the total budget of spending on municipal housing maintenance.

Thus, the wage fund was transformed into a consumption fund. The latter included not only the wage fund, but an ever increasing share of budget spending to cover all the material expenses of housing maintenance organizations.

The same tendencies of redistributing the resources to the top management level were spotted in relation to material and technical resources. For example, centralized warehouses were established at the trust level, where the basic materials and tools necessary for maintaining the housing stock were stocked. Vehicles and equipment were kept in a centralized garage as well. HMUs used the materials and equipment on the basis of orders placed with the trust. The procedure of resources allocation on these orders was becoming more and more bureaucratic. As a result, the access of bottom level units to the transportation, tools, parts, etc. was constantly being reduced.

Thus, the normative financial mechanism in state-administrative organizations acquired bureaucratic features, as financial and material resources were constantly being redistributed from the bottom units, which carried the main maintenance functions, to the top management level which spent a considerable part of these resources on establishing new management links.

Thus, the bureaucratic financial mechanism of the state-administrative organizations led to the constant deficit of financial resources necessary to perform housing maintenance. The number of residents' complaints on the quality of maintenance was constantly growing. These complaints were first submitted to the maintenance organizations and then to central and local power bodies in the form of active ("Red Flag") complaints. Under these conditions, the leaders of the state maintenance organizations began to ask for an ever increasing amount of the budget financial resources. Considering that district housing trusts were the only organizations that maintained the municipal housing stock on the territory of corresponding districts, the local budget had to cover their growing needs.

Thus, the practice of interaction between the state-administrative organizations and the budget, called "soft budgetary restriction" in economic science,²⁴ came into existence. Its essence is to cover all the expenses of monopolistic structures from the budget even if they exceeded the planned amount.

In the 1990s, this practice has been preserved even though the potential of local budgets is rather limited. The total amount of budget subsidy the housing trusts received from the city and districts' budgets in 1993 was 107 percent of the planned amount, though it fluctuated in different

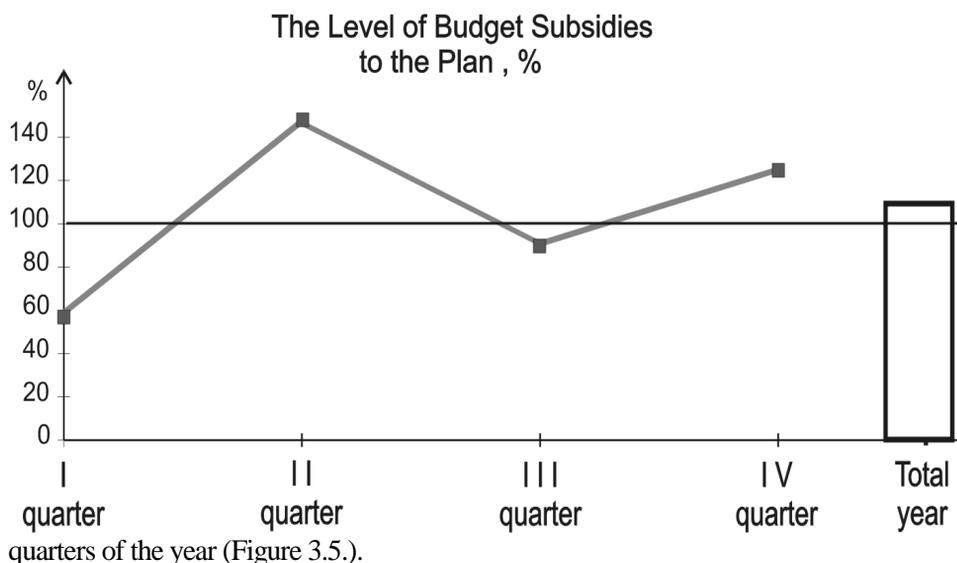


Figure 3.5. The Chart of Budget Subsidies Received by the Housing Trusts, Novosibirsk, 1993

Budget subsidies were not the only source of finance for housing organizations. Such factors as the amount of income collected by these organizations and the seasonal character of work in housing maintenance organizations are taken into account in allocating the budget subsidies. As a rule, the work load is the smallest in the first quarter. The chart (Figure 3.6) of income (collected income and budget subsidies) and expenses of

²⁴ J. Kornai, *Deficit* (Moscow: Nauka, 1991), pp. 328-331 (in Russian).

municipal housing organizations in 1993 illustrates the situation that is described above by quarters.

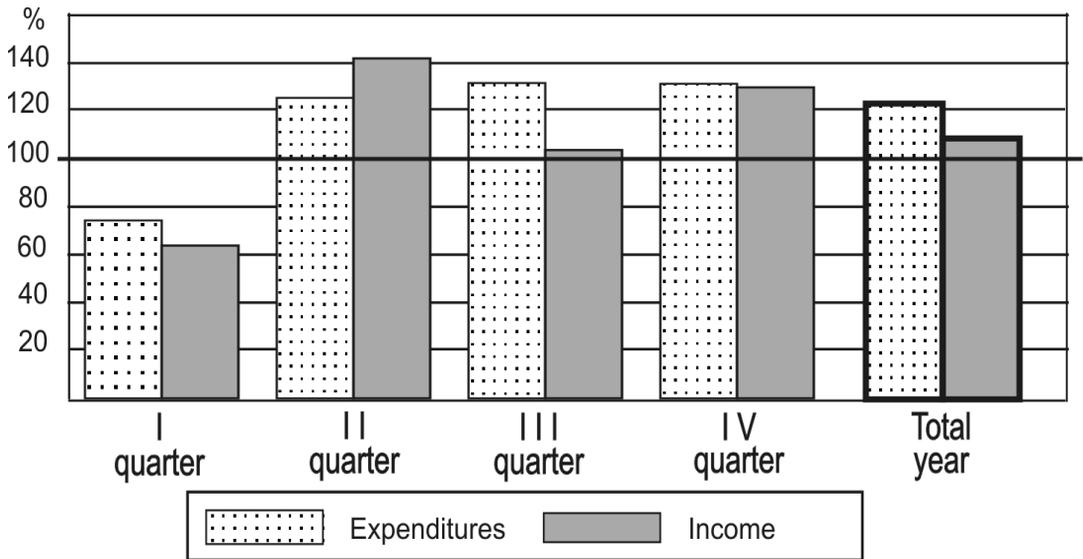


Figure 3.6. The Level of Income and Expenditures of Housing Trusts to the Plan, %, Novosibirsk, 1993

Figure 3.6 shows that only in the first quarter was the amount of income lower than planned. In other quarters and in the year as a whole the housing trusts spent more than was planned. The excess amounted to 23 percent.

The results of the work of housing trusts under the described conditions were paradoxical. The administration of housing trusts constantly complained about the lack of planned financial resources when the money actually spent was higher than planned. Further still, in 1993 the housing trusts spent so much that neither the budget subsidy, nor the income exceeding the plan were enough to cover these expenditures. For these reason 13 percent of the expenditures of municipal housing organizations in 1993 had to be covered in the following year, i.e., 1994. The total excess of expenditures over the income in 1993 was 48.5 billion rubles (Table 3.3).

If we take into account that the documents used in the analysis of income and expenditures of housing trusts do not include expenditures from grants-in-aid, then the actual amount of money spent by the trusts will be even greater. Expert assessment was used to calculate that the additional increase in the budget was 10 or more percent.

Beginning in 1993, a new practice of payments began to be formed in housing trusts. The power of budget restrictions was reduced to an even larger extent. Income collected by housing trusts was almost completely spent on paying wages to the workers. In the first half of 1994 it fully provided for the wages and supplementary meal allowances for workers. The consumption fund at that time was 5.96 billion rubles while the collected income for the same period was 6.36 billion rubles.

At the same time, district housing trusts did not pay their contractors to the full and met the debts through direct transfers from the budget. As for maintenance work, housing trusts entered into agreements with corresponding contractors without taking into account the amount of state subsidy. These agreements were later submitted to the budget for further payment.

Financing of District Housing Trusts in 1993, thousand rubles

	quarters				Total, year	
	I	II	III	IV		
Total Expenditures	plan	669088,7	922551,2	1319356,9	2305675,9	5216672,7
	actual	496848,0	1158032,0	1737974,0	3029376,0	6422230,0
Total Income	plan	669988,7	804272,2	1436735,9	1916292,8	4827289,6
	actual	427690,0	1141698,6	1489904,0	2489006,0	5548298,6
including: budget subsidy	plan	578905,9	563695,7	1099612,5	1455764,9	3697979,0
	actual	327290,4	832976,6	986955,0	1818237,0	3965459,0
collected income	plan	91082,8	240576,5	337123,4	460527,9	1129310,6
	actual	100399,6	308722,0	502949,0	670769,0	1582839,6

Thus, the bureaucratic financial mechanism in state-administrative organizations led housing maintenance to a crisis when any increase in expenditures did not lead to an improvement in the quality of housing maintenance. At the same time, a typical behavior for the administration of these organizations was constant justification of an ever growing demand for money from the budget. They spent an ever increasing portion of their working time trying to solve this problem while paying less and less attention to the actual operation of housing maintenance organizations.

§4. Distortion of the Normative Order

Under the bureaucratic financial mechanism, state-administrative housing organizations were faced with an increasing difference between normative and actual proportions in money spending. Primarily, this difference manifested itself in the structure of wages for all categories of workers and in the distribution of financial resources between the main levels of the management structure.

A normative order of wage payment meant that for all categories of workers it was paid according to the staff rosters. They determined the amount of the base wage level. From the middle 1970s, the amount of bonus as a percentage of the base wage level was specified there as well. Analysis of the records of funds actually paid to the employees of municipal and enterprise-owned housing organizations in 1992 revealed disparity between actual practice and staff roster normatives.

There are two chief divisions in the composition of wages paid in the housing maintenance sector. One part is fixed in the staff roster, while another part is variable (Table 3.4).

Table 3.4

The Structure of Wages of Housing Maintenance Workers, %, Novosibirsk, 1992*

	Total per person (percent)	Of which (percent)				
		Fixed Part	Regulated Part			
			Fixed Wage	Monthly Bonus	Fringe Benefits	Quarterly Bonus
Municipal Housing	100	58	13	5	4	20
Enterprise-Owned Housing	100	62	14	12	8	4

- To analyze actual wages, a comparison was made of paysheets for the same month from each of the surveyed HMUs. These paysheets reflect all wages paid in November, 1992. Paysheets contain data about all types of payments during any given month. Some payments due for that month, but paid later, were also taken into consideration. One-third of the quarterly bonus was included as the portion of that bonus that applied to the month under evaluation. Benefits, such as holidays, medical, and dependent benefits, were omitted from the analysis. Part-time employee earnings were not taken into account in estimating average, minimum and maximum wages. Both regular and temporary (short-term) employees were considered.

The fixed wage part included:

- the base pay for the position held according to the staff roster;
- regional index (15 percent of the base rate for the severe climate in Siberia);

The fixed wage part for employees maintaining the municipal housing amounted to 58 percent on average. For the employees maintaining enterprise-owned housing, it amounted to 62 percent.

The variable (regulated) part included:

- A monthly bonus, the amount of which was set in the staff roster, but which actually depended on a decision made at a higher level of management. Since the workers viewed this bonus as a part of their fixed income, managers could hold it back for disciplinary purposes. Thus, this bonus played the role of a fine rather than the role of an incentive. The amount of bonus paid to the worker did not depend on the number of norms he actually carried out, that is, each worker received only one bonus payment. Monthly bonuses accounted for 13 percent of the total monthly wage, on average, for those who maintained the municipal housing and 14 percent for those who maintained the enterprise-owned housing;

- Fringe benefits were usually determined by the HMU itself in accordance with the general wage restrictions and on the basis of the normative order. They included benefits for heavier work loads, combining positions, team leader duties, etc. The “distribution” of desirable job assignments was at the core of these benefits. For example, areas and building entrances assigned to cleaners could be more or less difficult to care for. If a certain cleaner had a “less difficult” area, he or she could expand to another or several other “less difficult” areas. These desirable assignments were usually distributed to the regular workers on the staff to increase their wages for the same number of working hours. “More difficult” areas were generally given to temporary workers, who were often in the process of changing jobs because of inadequate pay. If such positions remained unfilled, the areas were cleaned by the whole team on a set day. These fringe benefits accounted for 5 to 12 percent on average.

- A quarterly bonus paid once every three months was determined at a higher management level. The source of this bonus was “savings” in the wage fund due to vacancies on the staff roster, as described above. The share of quarterly bonus in total wages of municipal housing employees was 4 percent, for enterprise-owned housing workers - 8 percent;

- Meal allowances were paid only to staff members and not to temporary or secondary job holders. The specific amount of meal allowances was established at a higher management level based on the budget savings. The share of meal benefits in total wages of municipal and enterprise-owned housing employees was 20 and 4 percent, respectively.

The bureaucratic financial mechanism led to considerable distortion in the actual structure of wages. It manifested itself in a 38 to 42 percent increase in its variable (regulated) part. The difference between the actual and normative wages was the first violation of the normative order which lay at the basis of the financial mechanism.

The wage division into fixed and regulated parts gave the impression that in the branch as a whole, wages were low. As a rule, concerning the

question of wages, employees of housing maintenance organizations at all levels indiscriminately mentioned only the amount of fixed wage. The actual level of their income according to the paysheets was twice the level set in the staff roster (Table 3.5).

Table 3.5

**Ratio of Paysheet vs. Staff Roster Average Wages,
Novosibirsk, 1992**

	Average Monthly Wage, rubles		Ratio (percent)
	Staff Roster Level	Paysheet Level	
Municipal Housing	4120	8259	200
Enterprise-Owned housing	3681	6404	174

Analysis of the data presented in Table 3.5 showed that the excess of actual wage payments per worker in the municipal housing maintenance sector was, on average, 200 percent relative to the value set in the staff roster.

The difference between actual and staff roster wages for the employees maintaining enterprise-owned housing was 174 percent. The difference between actual and staff roster wages was the second violation of the normative order.

The staff roster wage levels were established at the national level, as were the basic wage levels and job classifications. The proportions among job categories remained practically unchanged. Actual data show that the spread from minimum to maximum pay by staff roster considerably differed from the normative (Table 3.6).

Table 3.6

Normative vs. Actual Wages, Novosibirsk, 1992

	Ratio maximum to minimum wages, %	
	Staff Roster Level	Paysheet Level
Municipal Housing	4.1	5.7
Enterprise-owned Housing	4.5	10.6
Average	4.3	8.1

According to the staff roster, the wage spread from maximum to the minimum among different personnel categories was supposed to be 4.3 times for both housing sectors. In actuality, it was 8.1 times. The actual wage spread in municipal housing maintenance exceeded the normative by 40 percent, while for enterprise-owned housing employees it was 140 percent. Thus, the actual wage spread considerably differed from the normative. This was one more violation of the normative order.

In 1992, the number of employees in housing differed considerably from the staff-roster staffing (Table 3.7).

Table 3.7

**Actual vs. Staff Roster Staffing in HMUs on Average,
Novosibirsk, 1992**

	Staffing		Ratio, percent
	Staff Roster Level	Level according to Paysheet	
Municipal Housing	121	62	51
Enterprise-Owned Housing	199	125	63

The actual versus staff roster number of employees in HMUs was 51 percent in organizations maintaining the municipal housing and 63 percent in organizations maintaining enterprise-owned housing.

These proportion was different for different job categories. The percentage of employed management personnel was from 88 to 100 percent, of resident relations personnel from 60 to 80 percent, while the percentage of employed current repair personnel and operating personnel was only from 41 to 48 percent. The level of employment in housing on the eve of the market experiment remained the same over several years. It indicated that further reduction of the number of employed was simply impossible from the technological point of view and physical abilities of those being employed. A considerable difference in the number of actually employed against the normative number set in the staff roster marked most clearly the distortion of the normative order.

Staff rosters determined and regulated the amount of management expenses in housing through the relationship between the number of employed and the amount of wages of the top management level compared to all the rest of the employed. For housing trusts, management expenses were determined by the number of trust administrative personnel (AP).

The normative relationship between the number of AP and ordinary employees was supposed to be 1 to 8 while in actuality, by the beginning of the 1990s, it was 1 to 4. As a result, there was two times more trust administrative personnel per ordinary employee than had to be, according to the staff roster.

The difference in the wage levels of trust management personnel and the ordinary workers was supposed to be 1.7 times, on average. In fact, this difference was 4 times according to the paysheet data.

Thus, the proportion of the top management personnel to the bottom level employees in the wage fund changed. The relative share of trust administration in the wage fund increased, while the share of other categories of personnel decreased. An increase in the share of the trust AP expenses meant an excessive increase in management expenses compared to the normative. This increase became possible through the redistribution of the unspent part of the total wage fund and understaffing of bottom units with ordinary employees.

The normative order of operation of the state-administrative organizations formed the framework of the razdatok-economy. The success of its development is largely determined by the correlation between the normative system and the conditions and needs. A long-term difference between the normatives, the regulators of economic life, and the real practice, leads society to the state of *anomie*.²⁵ Under normal operating conditions, the signaling system of the razdatok-economy in the form of complaints would correct the deviations that appeared and adjust the norms to the changing conditions. With the emergence of anomie, the signaling system was also deformed and the growing number of complaints did not contain reliable information.

This state of affairs was substantiated by the results of the first stage of economic-sociological monitoring in housing on the eve of the market experiment. The administration of state-administrative organizations (housing trusts), for example, complained only about the deviations from the normative order that were in their interests. On a large scale, the trust administration complained about understaffing and a low level of wages. At the same time, they hid information about an excess of actual payments to the workers in comparison to the staff roster and an excessive growth of management expenses. The basis for this behavior was the bureaucratic financial mechanism. It assisted the improvement in material status of management personnel, while the operation of state-administrative organizations was getting worse. Further still, complaints of management personnel about understaffing and the money deficit coincided with the complaints from the population about the worsening of the quality of maintenance. It resulted in an increase in budget expenses. The development of the situation when demands for necessary resources grew, while the effectiveness did not change, led to the general imbalance between tribute and distribution and to the general crisis of the razdatok-economy in the 1990s.

²⁵ The term “anomie” (<Fr. *anomie* lawlessness, absence of norms) was introduced by Durkheim E., for more details, see *Modern Western Sociology: Dictionary* (Moscow: Politizdat, 1990), pp.17-18 (in Russian).

Chapter 4

Crisis indicators in housing

In terms of the theory of institutional development, the system of complaints served as a natural self-regulator of the razdatok-economy. In periods of stable development complaints have a normative structure and play the role of feedback signals effectively. In crisis periods, on the eve of the period of institutional changes, the structure of complaints deforms with a dominance of latent complaints.

In Chapter 4, using the housing economy as an example, the structure of complaints is described and the reasons for its deformation in the period from 1980 to 1990s are given. These reasons are a decrease in economic effectiveness and increasing resident dissatisfaction.

§1. Economic Disproportion and the Deterioration of the Housing Stock

The bureaucratic financial mechanism in state-administrative housing organizations has been operating over a long period of time. It has resulted in distortions of the normative proportions in spending financial resources allocated to these organizations. Analysis of economic proportions at the first stage of monitoring revealed this fact.

Economic proportions were determined in relation to the part of financial resources the city housing trusts had to spend directly on housing maintenance. For this reason, extra wage charges transferred to the pension and social insurance funds were excluded from the total budget of expenses. In 1993, the share of extra wage charges amounted to 15 percent of total budget of expenditures.

Along with that, housing trusts paid for the services of subcontract organizations. These payments represented target redistribution of financial resources from the city budget (for details, see Chapter 5, p.95). Thus, they were also excluded from the total budget of expenditures. The subcontract organizations included a special garbage disposal fleet, an elevator maintenance organization, a sanitary and epidemiological station, and fire prevention brigades. At that time, the share of these obligatory payments amounted to 12 percent of the total budget of the city housing trusts.

Thus the total amount of financial resources that only “passed through” the trusts was 27 percent. The total sum of the budget expenditures of the Novosibirsk housing trusts was 6.51 billion rubles. But finally, they had at their disposal only 73 percent, or 4.76 billion rubles (Table 4.1). This group of expenditures formed the direct expenses of the housing organizations.

Table 4.1.

**The Structure of Expenditures of the Housing Trusts,
Novosibirsk, 1993**

Items of Expenses	ths. rubles	%
1 Extra Wage Charges	1 003 611	
2 Obligatory Payments to Subcontractors	742 808	
3 Total Obligatory Extra Payments [1] + [2]	1 746 419	
4 Direct Expenses of Housing Trusts, Total,	4 763 850	100
including:		
5 Administrative Costs	378 287	8
6 Wage Fund	2 788 106	59
7 Materials and Repair Fund	1 597 457	33
TOTAL [3] + [4]	6 510 269	

Housing trusts spent part of their direct expenses on maintaining the trust administrative personnel which organized the process of housing maintenance. This part of the expenditures constituted the administrative costs.

As statistical documents did not contain separate information about the administrative personnel costs at all administrative levels, including the

trust and HMU, it was rather difficult to calculate their amount. For this reason, to determine the portion of trust administrative costs, in-house documents of different housing trusts of the city were used. The values were then averaged. Calculations revealed that the share of

expenditures on trust administration in the total wage fund amounted to 60 percent, on average. In addition to wages, the consumption fund of the administrative personnel included meal allowances. They were proportionate to the share of the administrative personnel in the total wage fund and amounted to 13 percent of the total meal allowances. The value of trust administrative costs, calculated as described, amounted to 378 million rubles, or 8 percent of the total expenditures the housing trusts bore themselves in 1993. The excess of administrative costs over the normative level was connected with the operation of the bureaucratic financial mechanism of the administrative management model described in Chapter 3. This mechanism led to an increase in administrative costs through partial redistribution of the wage fund of the bottom units to the advantage of the trust administration.

The wage fund constituted another group of expenditures. Administrative costs, i.e., the wage fund of the trust administrative personnel, were not included into this fund. It only included the wage fund of all HMU and trust employees, together with their meal allowances. Total expenditures amounted to 2.79 billion rubles, or 59 percent of the total budget of expenditures. The excess of the wage fund over the normative level was caused by the redistribution of part of housing organizations budget, the part allotted for repairs and purchase of necessary materials, into it.

The remaining part of the direct expenditures of housing trusts was spent on repairs and purchase of materials. In 1993, the materials and repair fund amounted to 1.60 billion rubles, or 33 percent. A reduction in the financial resources spent on materials and maintaining the physical characteristics of buildings was connected with the redistribution of financial resources, allotted for these purposes, to the wage funds of all categories of employees, including the administrative personnel, at all levels.

A disproportion between administrative costs, wage fund and financial resources allotted for repairs and materials was observed during the last ten years. It eventually led to the crisis in housing economy. Housing maintenance could no longer be performed. This conclusion was supported by the data of technical inspection conducted in April, 1994.

During the random inspection of buildings in the Leninski and Pervomaiski districts of the city, the level of physical characteristics of buildings was evaluated on a 2 to 4 grading scale. Initial physical characteristics of buildings in general and their separate elements was measured in the course of the technical inspection. The results of the inspection are presented in Table 4.2.

Average evaluation of physical characteristics of buildings in the Leninski district was 3.04 and in the Pervomaiski district, 2.73.

**Evaluation of Physical Characteristics of the Housing Stock in
Leninski and Pervomaiski districts, Novosibirsk, 1994**

Physical Characteristics of a Building	Leninski district	Pervomaiski district	Average value
Basement	2.82	2.72	2.77
Walls	3.39	3.16	3.28
The Availability of the Gutters	3.06	2.75	2.90
Balconies and Loggias	2.97	3.18	3.07
Canopies	3.61	3.52	3.56
Outdoor Illumination	2.94	2.42	2.68
Illumination and Dashboards in the Building	3.19	2.96	3.07
Entrances	2.78	2.31	2.54
Roof	3.06	2.54	2.80
Cellars	2.97	2.98	2.97
Cleanliness of the Cellars	2.79	2.75	2.77
Equipment	2.96	2.84	2.90
Average	3.04	2.73	2.89

The inspection showed that construction specifications and the age of the building influenced their physical characteristics. The data of Table 4.3 show that the older the building, the worse its physical characteristics. On the other hand, construction specifications of the buildings with different number of stories also influenced their physical characteristics. It determined either simplicity or complexity of their maintenance. Evaluation of physical characteristics of 5-story buildings of more modern design was higher than that of 2-4-story buildings. It was connected not only with the age of buildings, but also with better technical characteristics.

Table 4.3

Relationship between Physical Characteristics of Buildings and Number of Stories, Novosibirsk, Leninski district, 1994

Buildings (Quantity)	Stories	Average Age (years)	Average Evaluation of Physical Characteristics
4	2-4	46	2.87
23	5	28	3.05
6	9-12	14	3.11

Utility lines in 2-4-story buildings became worn-out. It was difficult to replace the details of the equipment because they were no longer being produced by Russian industry. Maintenance of such buildings became more labor-intensive as it was necessary to specially manufacture the parts or to replace a part of a utility line with a more modern one. The linking-up of old in-house utility lines with more modern outside lines added to the difficulty in maintaining 2-4-story buildings. For this reason, assessment of their physical characteristics was the lowest, 2.87. Physical characteristics of 9-12-story buildings was the highest at 3.11

The data of the technical inspection of buildings in the Pervomaiski district of the city attested to the conclusions that were made. The older the building, the lower its physical characteristics. More modern 5-story buildings received better assessments than 2-story buildings of obsolete design (Table 4.4).

Table 4.4

Physical Characteristics of Buildings vs. Age and Quantity of Stories, Novosibirsk, Pervomaiski district

Buildings (Quantity)	Stories	Average Age (years)	Average Evaluation of Physical Characteristics
10	2-4	36	2.42
8	5	13	3.08
1	9	11	2.98

Examination of a 9-story building in the Pervomaiski district revealed that the quality of the utility lines was very bad and worsened the physical characteristics of the building. In this particular case the garbage chute was so imperfect that it had been sealed. Thus, the residents of the building had to dispose of their garbage by throwing it into the garbage tanks in the yard. For this reason the evaluation of the physical characteristics of this building was relatively low for this type of buildings.

Comparison of data presented in Tables 4.3 and 4.4 supported the validity of the conclusion made about the correlation between the age a building and its physical characteristics. 5-story buildings in the Leninski district were built 28 years ago and their average evaluation was 3.05. Similar buildings in the Pervomaiski district built 13 years ago were evaluated at 3.08 points, on average.

When assessments of physical characteristics of 2-4-story buildings in both districts were compared, it was discovered that the difference in the construction specifications was as significant a factor as the age of the building. Though buildings in the Pervomaiski district were “younger”, their average age was 36 years compared to 46 years for buildings in the Leninski district; the physical characteristics of the former was worse (their average assessment was 2.42 points compared to 2.87 points of the buildings in the Leninski district). The reason was that in the Pervomaiski district 2-story buildings were primarily built of squared timber and did not have cellars to install utility lines (one of the houses even did not have a basement). At the same time, 2-4-story buildings in the Leninski district were built of stone and had cellars where the utility lines were installed.

In general, the technical inspection of the buildings demonstrated that the city housing organizations could no longer perform their primary function of maintaining the housing stock, not to mention the function of improving its physical characteristics. The evaluation of physical characteristics primarily depended not on the efforts of housing organizations but on the age of buildings.

At the same time, a low level of assessment of buildings that were constructed relatively recently, whose maintenance was being transferred to the state-administrative organizations, attested to the crisis in other branches of the razdatok-economy. A low assessment of performance by

housing maintenance organizations was conditioned by the drawbacks in design and worsening quality of buildings under construction as well as imperfections in the utility lines which were being installed in these newly built houses.

§2. Disruption of Labor Motivation

The observance of the normative values of the wage fund and staff roster staffing was to provide an adequate payment for the employees' labor effort, thus providing also effective labor motivation. Normative staff rosters and instructions served this goal. They helped to match the required work load with the normative level of wages.

The operation of the bureaucratic financial mechanism in state-administrative organizations accompanied by the redistribution of part of the resources allocated to the bottom maintenance level to the top management level resulted in a decrease in actual financing of the work done by the bottom units, the HMUs. All categories of employees began to spontaneously match their work load with their wages. Some groups of employees began to spend less time on carrying out their work, others began to compensate for the lack in salary by so-called "on-the-side" income. This was income received for work done both during and outside working hours which was not assigned to be done. At the same time, the HMU administrative personnel reduced the quality requirements for the work to be done.

HMU personnel were subdivided into four categories according to their responsibilities and the order of wage payment.¹⁰

The first category was, first of all, represented by a HMU director. On the eve of the market experiment, a HMU director had to organize its operation, establish contacts with higher levels in the system, and meet with the residents to receive their complaints. A chief engineer assisted the director and was responsible for organizing repair work and the supply of materials and parts. Foremen supervised the work of operating personnel and were subordinated to the HMU director. When residents placed their requests with the HMU, the foremen helped diagnose resident problems and assigned the appropriate personnel to resolve them.

Each resident had to pay a housing fee. It was the responsibility of a HMU to determine its amount according to the established rates. This work was done by a bookkeeper who also did the payroll for the HMU employees according to prescribed rules. The cashier handled the payment of wages and accepted payments from the residents.

¹⁰ The four staff categories for HMUs did not completely coincide with the generally accepted official classification, which consisted of three categories: administrative/clerical personnel, current repair personnel, and junior attendants. These titles carry over from the time when housing maintenance services were part of the enterprise hierarchy. Administrative/clerical personnel were administrators, the current repair group performed repairs, and the junior attendants occupied the bottom rung in the plant hierarchy. This last group was responsible for functions of relatively minor importance for the operation of the plant, such as cleaning, sweeping, washing, etc. However, these functions are of major importance for a housing maintenance unit. For this reason it is more appropriate to term them operating personnel.

It is also appropriate to divide the administrative/clerical classification into administrative and resident relations personnel. For example, the passport clerk, who was traditionally grouped with the administrative/clerical group, acts only as a mediator between residents and law enforcement bodies, but does not decide in what order they are to be fulfilled.

The enumerated groups of employees represented HMU administrative personnel. Table 4.5 reflects general tendencies in forming the salary of a HMU administrative personnel.

The staffing of the administrative personnel was 88 percent on average relatively to the normative staff roster staffing. HMU administrative personnel received the highest monthly bonus. It comprised 75 percent of wage for the HMU directors and 50 percent for the rest of the employees in this category. The trust administrations decided, whether other employees received their bonus or not and what its amount would be. For this reason HMU administrative personnel was overly oriented towards the assessment of their work by the top administrative level. Additional part of salary, paid to the administrative personnel in the form of bonus (the regulated part) depended on the assessment of their work by higher authorities and amounted to 51 percent, on average. This was the highest value among all categories of employees.

Table 4.5

**Wage Trends for HMU Administrative Personnel,
Novosibirsk, 1992**

	Actual vs. Staff Roster staffing (percent)	Actual vs. Staff Roster Wage Level per person (percent)	Fixed Wage Share of Total Wage (percent)
Average Value for Municipal Housing	81	164	40
Average Value for Enterprise-Owned Housing	95	164	58
Average Value	88	164	49

As a result, the actual salary paid to the administrative personnel per person exceeded the staff roster amount by 164 percent, on average. It resulted in considerable quarterly bonuses being paid in addition to the monthly one. Their source was money “saved” from the HMU wage fund. In other words, administrative personnel of all HMUs constantly received additional wages through the unspent wage fund of ordinary employees. Quite often the quality of work and the number of resident complaints were not taken into consideration in deciding whether to pay a bonus or not.

Thus, at the first stage of monitoring, the conclusion was drawn that HMU administrative personnel were materially interested in understaffing of ordinary employees compared to the staff roster level. It was through this means that the total wage fund was “saved,” providing for the quarterly bonuses for administrative personnel. A natural consequence of such HMU administrative personnel labor motivation was that the quality of work in HMUs became worse as understaffing made it impossible to carry out the required work load. Surveys of HMU directors in the course of monitoring revealed that the administrative personnel had psychologically reconciled themselves to the worsening quality of maintenance. For example, if there were a required number of cleaners, then they would be able to do all necessary work on cleaning the entrances. But as soon as their number was considerably lower than it was required by the normative, foremen with silent support from HMU administration lowered the requirements to the work of cleaners and considered it to be sufficient if an entrance was cleaned only once a week.

The next category of HMU employees was represented by the resident relations personnel, i.e., the passport clerk, a secretary, a dispatcher, etc. These employees interacted directly with the residents, collecting documents for residents' permits, issuing resident certificates as required by various government bodies, taking repair requests, etc. Resident relations personnel, like other groups, was not staffed at roster levels, although it was staffed at a higher level than operating personnel (81 percent). Their actual average wages exceeded the staff roster level by one and a half times with the fixed part accounting for only 51 percent of the total (Table 4.6). All fringe benefits were concentrated in the basic monthly and quarterly bonus, derived from HMU wage fund savings.

Table 4.6

Wage Trends for HMU Resident Relations Personnel, Novosibirsk, 1992

	Actual vs. Staff Roster Staffing, (percent)	Actual vs. Staff Roster Wage Level per person (percent)	Fixed Wage Share of Total Wage (percent)
Average Value for Municipal Housing	80	156	42
Average Value for Enterprise-Owned Housing	82	153	61
Average Value	81	155	51

If the stock served by the HMU included housing where the state and party *nomenclatura* lived, the resident relations personnel could be given additional privileges to encourage them to be more considerate of the “best” residents’ requests. This was done, for example, by promoting the dispatcher to the higher-paid position of plumbing dispatcher. Such promotion was authorized at trust level.

The resident relations personnel had fixed working hours, i.e., they always had to be present at their working places. Their main task was to accept different types of residents’ complaints. The number of the latter was constantly growing as there was always an insufficient number of employees on the staff which resulted from the operation of bureaucratic financial mechanism. With time, quarterly bonuses became insufficient to compensate for additional work load of this category of employees. For this reason, this category of employees was becoming more and more irritated. It mainly manifested itself in the worsening of attitudes of the personnel toward the residents. Rudeness and inattention to residents’ requests became widely spread.

The current repair personnel performed the front-line tasks of the housing maintenance units, including utility line upkeep within the buildings and dwellings. They were responsible for preventive maintenance and repair work on in-house heat, water and sewerage lines, and electric wiring, as well as other current repairs such as the painting and washing of entranceways, and minor roof, door and window repairs. This group included plumbers, electricians, gas and electric welders, plasterers, painters, roofers, carpenters, and lathe operators, etc. All HMU directors surveyed placed current repair personnel as next in importance to administrative personnel. They named plumbers and electricians as the most skilled group of

employees. They were responsible for the utility lines, which are considered the most complicated equipment of the housing and communal services sector.

In the beginning of the 1990s, fewer plasterers, carpenters, roofers, painters, and joiners were represented in this group than formerly, especially in municipal housing maintenance. Workers of these professions were either invited to work at the HMU from time to time, or were part-time HMU workers.

HMU current repair personnel included teams consisting of plumbers, a gas and electric welder, and several electricians. A team of plumbers and electricians served an area with a specified number of dwellings. While the staff roster stated that one plumber had to serve 200 dwellings, a team of 5 employees could undertake not 1,000 but many more (1,500-3,000) dwellings, in order to be paid the wages originally intended for a greater number of employees. Table 4.7 shows that, at 44 percent staffing, wages actually paid were 247 percent of the staff roster level. In other HMUs this figure varied from 135 to 310 percent.

Table 4.7

**Wage Trends for HMU Current Repair Personnel,
Novosibirsk, 1992**

	Actual vs. Staff Roster Staffing (percent)	Actual vs. Staff Roster Wage Level per person (percent)	Fixed Wage Share of Total Wage (percent)
Average Value for Municipal housing	40	222	59
Average Value for Enterprise-Owned Housing	49	271	59
Average Value	44	247	57

Often wages did not relate to the amount of work carried out. Wage fund savings for this category of personnel were not fully paid to them, but rather were distributed among the administration. For example, as interviews at the first stage of monitoring showed, the employees perfectly understood that a work load originally intended for 19 employees was beyond the power of 7 employees. However, the pay system did not allow one worker to be paid as much as three others. At the same time, these personnel resisted hiring new workers, because this would threaten their earning level. In other words, current repair personnel were interested in the preservation of the existing practice of understaffing the staff roster.

Another reason that the current repair personnel did not wish to increase the level of staffing was to avoid competition for the “on-the-side” work. This work was done both during and outside working hours for direct cash payment from the residents. It usually included replacement of plumbing equipment, installation of sinks, changing the position of pipes, installation of electric cookers, etc. More potential providers of these services would cause rivalry for this extra income which equaled a plumber’s monthly pay, one and a half to two times a gas welder’s, and 30 to 50 percent of an electrician’s.

At the first stage of monitoring on the eve of the market experiment it was found that the “on-the-side” work market included a rather broad range

of services. Prices charged for “on-the-side” work generally depended on a family’s perceived financial status and the worker’s own preferences.

Cleanliness and order in the entrances and elevators, yards, and garbage disposals were the responsibility of the operating personnel: cleaners, elevator operators, chute attendants, etc.

Operating personnel work levels were usually set in terms of units of area served (for yard and entrance cleaners), or volume of garbage which depended on the number of residents (for chute attendants), or number of elevators maintained (for elevator operators). They could increase their wages by increasing their work levels. This category was staffed at 59 percent on average. Employees were paid 1.9 times higher than the staff roster levels (Table 4.8).

Table 4.8

Wage Trends for HMU Operating Personnel, Novosibirsk, 1992

	Actual vs. Staff Roster Staffing (percent)	Actual vs. Staff Roster Wage Level per person (percent)	Fixed Wage Share of Total Wage (percent)
Average Value for Municipal Housing	42	232	60
Average Value for Enterprise-Owned Housing	75	152	65
Average Value	59	192	62

Usually, in the beginning of the 1990s, operating personnel were not organized in teams. Each worker was individually responsible for a work area. This group of workers was not united. Each worker had contact with the foreman, who recorded the quality of work. Work levels were uniform and wages similar for elevator operators and garbage chute attendants as their responsibilities were conditioned by technology. Yard-cleaners and cleaners, however, were distinguished by the greatest wage differences. This group included the minimum and the maximum wage among all surveyed HMUs. For example, in one of the HMUs, one worker simultaneously held the positions of yard-cleaner, entrance-cleaner, and a washer of the HMU premises, giving her a monthly salary exceeding the HMU director’s.

Two groups of employees are distinguished in this category. The first group was represented by regular workers who had been working at a HMU for a long time and provided with so-called job-contingent housing. These workers generally combined several functions and “soft” work loads, for example, a cleaner and garbage attendant, or an elevator operator and entrance cleaner. For this reason this group of workers had a higher salary.

The second and more numerous group in this employment category included poor performers, temporary workers, or multiple job holders. This group was marked by a high turnover. They were usually given more difficult areas, such as housing that had no regular staff and had to be attended by whole teams on specially appointed days. This kind of housing was a perennial problem, because even when new employees were added to the task, they could not cope with the effects of long-standing neglect.

The second group of employees was usually paid less than the bonus level specified in the staff roster. This was a source of additional payments

for the rest of the HMU staff. For this reason, all categories of workers, from yard-cleaners to HMU directors, accepted this situation. Thus the quality of services was constantly deteriorating.

Thus, as a result of the long-term operation of the bureaucratic financial mechanism, the number of ordinary workers was constantly decreasing while the work load for each bottom level worker was increasing. At the same time, an increase in the work load level was not proportionally covered by the actual increase in wage levels. Workers began to bring the required work load levels into correlation with their income. Correspondingly, the productivity decreased. Thus the quality of housing maintenance was worsening on a large scale.

To resist negative tendencies, decisions to strengthen quality control were made. According to the branch leaders, they were ready to “establish an institute of organizers... represented by engineers and technicians who would be morally and materially interested.”¹¹ But neither the ever growing number of controllers, nor the new administrative methods of labor organization and motivation could improve the quality of housing maintenance. It continued to get worse.

§3. Low Quality of Housing Maintenance

The list of normative operations on maintaining the utility lines in houses and cleanliness of common areas (yards and entrances) determined the directions of work for state-administrative housing organizations. Staff rosters were formed to meet these requirements, thus budget subsidies, materials and equipment were allocated according to them.

According to the established order, residents were to refer their requests directly to the HMU. The structure of annual requests is presented in Table 4.9.

According to the data collected at the first stage of monitoring, the residents most frequently requested plumbing services. Half the families called the HMU for plumbing services, while approximately every fourth family requested electrical repairs, and 24 percent of the families contacted the HMU about water and heat supply problems.

Table 4.9

The Structure of Annual Requests to the HMU, Novosibirsk, 1993

Type of Request	Total	Percent of All Families (=2073)
Plumbing	1026	50
Electrical	563	27
Water supply	368	14
Heat	276	10
Other	360	13

It can be seen that the share of requests referred to plumbers was the highest. If direct repair requests to plumbers were combined with more general repair requests concerning heat and water supply that were not the plumber’s responsibility but for which residents also typically called

¹¹ V. Vashchenko, *Scientific Labor Organization in Housing* (Novosibirsk: West Siberian Publishing House, 1983), p. 70 (in Russian).

the plumber, then the share of requests referred to plumbers would exceed 70 percent. Thus, it was not by accident that the residents personified the HMU as the plumber, with whom they had to deal most often. Such high frequency of requests to housing organizations was partially connected with the outworn state of plumbing equipment installed in houses. Survey findings at the first stage of monitoring indicated that 80 percent of the families had old (repaired) plumbing equipment that had to be replaced. The finding was also evidenced by resident answers to open-ended questions concerning necessary additional improvements in the dwelling — the most frequently voiced suggestions dealt with replacing plumbing equipment.

When people called the HMU, they typically expected its personnel to solve their problem. Survey results regarding the extent to which their expectations were fulfilled are discussed below.

Figure 4.1 presents the results of work done by plumbers and electricians at the request of residents.

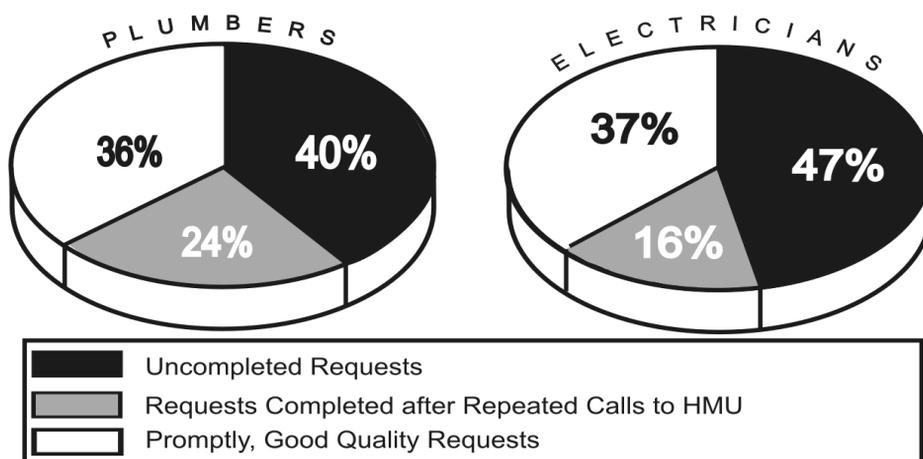


Figure 4.1. Repair Requests Completed by Plumbers and Electricians, Novosibirsk, 1993

From the total number of requests, 36 percent of requests to plumbers and 37 percent of requests to electricians were met promptly and with good quality, 24 percent and 16 percent were met after repeated calls to the HMU, while 40 percent of requests to plumbers and 47 percent of requests to electricians were not completed during the year. Most services were provided to the residents free of charge (Table 4.10).

Table 4.10

Paid Services Completed by Plumbers and Electricians, %, Novosibirsk, 1993

Personnel Category	Services Unpaid by Residents	Payment was Made According to Invoice	Payment was Made to Worker
Plumbers	79	4	17
Electricians	88	3	9

The survey data showed that residents paid in one form or another for 21 percent of plumbing services and 12 percent of electrical services. In such cases payment was not made according to an invoice from the HMU — that is, payment was not made into the HMU budget — but directly to the

worker who performed the service during normal working hours (17 percent out of 21 percent for plumbers and 9 percent out of 12 percent for electricians).

These data only included work on requests under the HMU’s areas of responsibility and were completed by its personnel during normal working hours. More complicated resident requests such as the replacement or installation of plumbing equipment, and the relocation of pipes or wiring, etc., were usually completed by HMU personnel after their working hours for non-reported payments. Therefore, Table 4.10 does not fully reflect the full volume of paid services provided to the residents by HMU personnel on the eve of the market experiment.

Maintaining cleanliness in the entries, stairways and hallways is the most visible aspect of the HMU’s operation. The results of the first monitoring stage showed that the condition of common areas in the buildings under the Demonstration Project was typical of the city’s housing stock maintained by state-administrative housing organizations. For example, 39 percent of families interviewed mentioned peeling walls, 19 percent noted damaged stairs, 7 percent marked that the entry doors were either broken, or did not close properly, and 20 percent pointed to broken windows, etc. A total of 75 percent of families reported that the entries were in poor physical condition.

Order and cleanliness in the entries, regardless of their state of repair, reflects the operation of the state-administrative organizations. Table 4.11 illustrates the data on the cleanliness of entrances before the experiment was started. About one fifth of the families surveyed said that the entries were always clean. When asked “How often is the entry cleaned?”, 47 percent of the families said that cleaning was performed rarely or not at all; 21 percent indicated that the entry was cleaned often or even daily, 22 percent did not know how often the cleaning was done, 10 percent answered that they often cleaned the entry themselves. It is also generally accepted that cleanliness in the entries depends not only on the efficiency of cleaners, but also on the behavior of the residents, whether strangers visit the entry, whether the building is located in a busy, central location, whether teenagers and other groups gather in the entry, etc. Usually HMU directors and foremen referred to these external circumstances when explaining the unsatisfactory condition of the majority of entries. At the first stage of monitoring, nevertheless, a statistically significant relationship between the frequency of cleaning and the condition of the entry was revealed.

Table 4.11

Relationship between the Condition of the Entry and Frequency of Cleaning, %, Novosibirsk, 1993

Answers to “Is the Entry Clean?”	Answers to: “How often is the Entrance Cleaned?”				
	Do not know	Often	Seldom	Often Clean Ourselves	Total
Always Dirty	9	5	28	4	46
Sometimes Clean	8	5	17	3	33
Always Clean	5	11	2	3	21
Total	22	21	47	10	100

The data of the Table 4.11 show that if the entry was cleaned often, about 50 percent of respondents said that the entry was always clean. If the entry was only rarely cleaned, only 4 percent responded that entries were clean.

Some of the buildings covered by the Demonstration Project were equipped with garbage chutes and elevators. The technical condition of garbage chutes in houses was often unsatisfactory. There were cases where the poor quality of the garbage chutes forced the HMUs to weld them shut and remove them from service. For this reason, some of the chute operation problems pointed out by the respondents had to be attributed to inadequacies in the city's housing sector as a whole.

Of families who stated that their building had a garbage chute, 47 percent said that it did not pose any additional problems. However, 33 percent of families said that the area around the garbage chute was littered, 8 percent complained about an unpleasant smell in the entry, 12 percent said that the garbage chute led to infestation by cockroaches and mice. They also said that it was often clogged, the bucket broken, etc. Thus the problem of cleanliness around the garbage chute appeared to be the most relevant of all the problems concerned with garbage chutes.

Elevator maintenance was performed by the HMU and specialized organizations. Resident assessment of elevator maintenance at the first stage of monitoring revealed the main elevator maintenance problems. Of all the surveyed families, 15 percent said that the elevator was dirty. Of greater importance to the residents were the problems relating to the technical condition of the elevators. For example, 52 percent of families said that the elevator was old, that it often broke down, control buttons were broken, the elevator was very noisy, it was often switched off, etc.

Also, at the first stage of monitoring HMU staff attitudes to residents was studied. Resident assessments of the quality of response to requests to HMU are illustrated in Table 4.12.

The data show that in 57 percent of the cases HMU personnel responded "attentively" or "acceptably" to resident requests, while in 34 percent of the cases the response was "indifferent", and in 9 percent of the cases it was "rude".

Table 4.12

Resident Assessments of Responses to Requests to HMU, %, Novosibirsk, 1993

Personnel Category	The attitude to resident requests was			
	attentive	acceptable	indifferent	rude
Front line staff	15	50	27	8
Foreman	14	38	40	8
Dispatcher	13	44	35	8
Director	13	40	37	10
Entire Personnel	14	43	34	9

The relative proportions of attitude categories were constant across the four personnel categories (front line staff, foremen, dispatcher, director).

It is appropriate to say that the HMU as a whole operated in a “passive-indifferent” mode.

Such character of the relationship between HMU personnel and residents on the eve of the market experiment resulted from the deterioration of labor motivation. As it was shown in Chapter 3, it was caused by the operation of the bureaucratic financial mechanism. It increased resident discontent and alienation of housing management from the consumer. In the course of the survey, residents voiced a wish for a more human attitude toward them. They wanted to be informed and also they wanted HMU personnel to be interested in resident problems.

At the first stage of monitoring a large number of problems that accumulated in housing was detected. At the same time, 31 percent of families did not contact HMU although they had reasons to do so. The majority of them did not contact state-administrative housing organizations because they saw no use in calling the HMU. Some of them solved housing maintenance problems without assistance from the HMU (Figure 4.2).

The data on entry cleaning given above can serve as an example of how residents solved their housing problems themselves without contacting the state-administrative housing organizations. According to the survey data, 10 percent of families cleaned their entrances on their own.

A special alienation indicator characterizing the interaction gap between housing maintenance organizations and the residents in solving maintenance problems was developed. This indicator represents a share of residents who had a reason to contact the housing organization, but who did not do so. Both residents who saw no use in contacting the HMUs and those who did the work of plumbers, electricians, and other HMU personnel themselves are included here. On the eve of the experiment the alienation indicator equaled 31 percent.

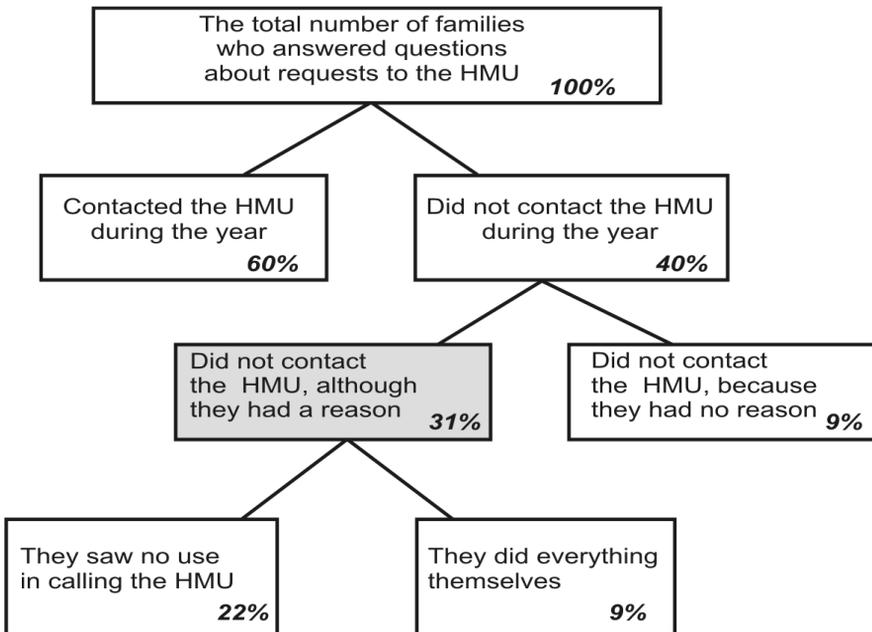


Figure 4.2. The Reasons for Residents not to Contact the HMU, Novosibirsk, 1993

A high value for the alienation indicator, characteristic of that period, highlighted housing organizations handling the resolution of a small proportion of all housing problems at one “pole”. These problems were

primarily connected with the maintenance of utility lines. The other pole represented residents resigned to poor quality of maintenance and trying to solve their problems on their own.

Thus the results of housing maintenance by the state-administrative organizations on the eve of the market experiment were as follows. Although a considerable number of problems accumulated, only two thirds of residents directly contacted the housing organizations. Buildings, utility lines, condition of yards and entries that were maintained by the housing organizations were in an unsatisfactory condition. Approximately half of resident requests were not completed. Resident requests not completed during normal working hours very often served as a source of “on-the-side” income for electricians and plumbers. The attitude of the personnel of state-administrative organizations to residents was very often “indifferent” and sometimes even “rude.”

§4. Residents’ Level of Satisfaction and the Structure of Complaints

At the first stage of monitoring, the level of resident satisfaction with the performance of the state-administrative organizations was measured on the basis of two gradations, “positive” and “negative”. Positive assessment combined answers such as “good”, “fair”, “the entrance is in good condition”, etc. Negative assessments combined answers such as “poor”, “not satisfied”, “not quite satisfied”, “the entrance is in poor condition”, etc.

Figure 4.3 illustrates the assessments of specific aspects of state-administrative housing organizations performance on the eve of the market experiment.

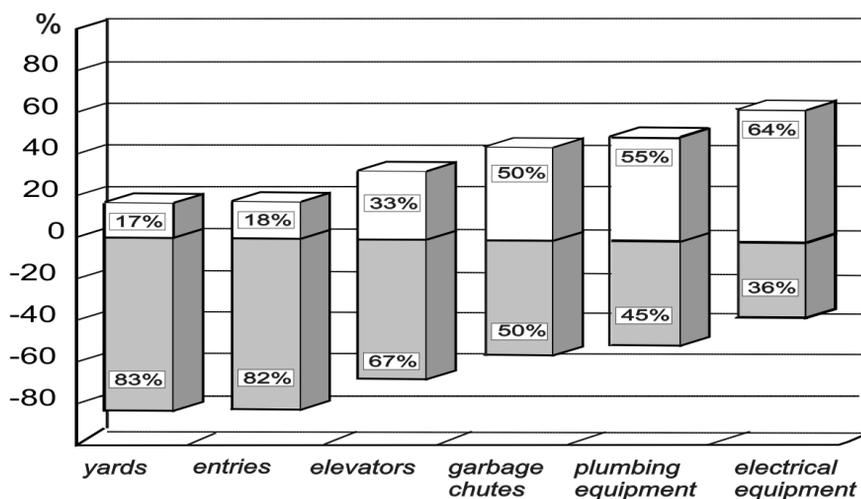


Figure 4.3. Relationship between Positive and Negative Assessments of Specific Aspects of HMU Performance, %, Novosibirsk, 1993

Positive assessments prevailed in the evaluation of electrical and plumbing equipment maintenance. They were 64 percent and 55 percent respectively. The balance of yard and entry maintenance assessments was negative. The share of positive assessments relative to yard maintenance was only 17 percent, while negative assessments amounted to 83 percent. The share of negative assessments

in the evaluation of entrance maintenance was also very high and amounted to 82 percent.

To assess the elevator and garbage chute maintenance the residents were asked whether there were any problems with their maintenance. The assessment was considered positive if no problems were indicated in the maintenance of this equipment. If there were problems of any kind, the assessment was considered negative. The relationship between positive and negative assessments for garbage chute maintenance was 50 percent and 50 percent, while for elevator maintenance it was 33 percent and 67 percent, respectively.

Quantitative assessments were then built. They made it possible to rank all aspects of the performance of housing organizations according to the level of problems. The first stage of monitoring showed that the grounds and entry maintenance were the most problematic. Elevator and garbage chute maintenance were next. Plumbing and electrical equipment maintenance was the least problematic.

The Integral Appraisal of activities of the state-administrative housing organizations is an aggregate household rating for all aspects of their performance, interpolated from the specific assessments. A "plus" or "minus" was tallied for each of the aspects of HMU activities. Families who noted equal sets of "pluses" and "minuses" were grouped together. The distribution of families with different sets of assessments was as follows: 2 percent of families noted six pluses, 19 percent of families — one or two minuses, 35 percent of families — three minuses, 44 percent of families — four to six minuses.

In effect the first group of families where no minuses were noted, rated the performance of housing organizations as "excellent", while the fourth group, the one that noted 4 or more minuses assessed it as "poor". Figure 4.4 shows the structure of families according to the level of their Integral Appraisal.

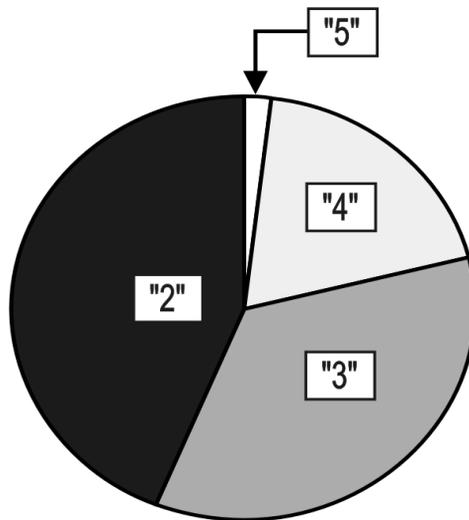


Figure 4.4. Distribution of the Data of the Integral Appraisal Indicator, Novosibirsk, 1993

Thus, resident assessments on the eve of the market experiment showed that almost 80 percent of residents were unsatisfied with the condition of housing maintenance and assessed it as being "poor" or "satisfactory".

To control and validate the survey results, residents were asked a direct question about the extent to which they were satisfied with the present state of services. The distribution of answers indicated that 16 percent were fully satisfied, 32 percent not quite satisfied, and 52 percent were totally unsatisfied. In other words, 84 percent of the families were dissatisfied with the performance of the state-administrative housing organizations to some extent.

The values of Integral Appraisal and the Level of Resident Satisfaction indicators were correlated. It appeared that the two indicators correlated well and were reasonably consistent (Table 4.13).

Table 4.13

Relationship between the Level of Satisfaction and Integral Appraisal, %, Novosibirsk, 1993

Level of Satisfaction Indicator	Integral Appraisal Indicator Values				Total Answers
	Excellent	Good	Fair	Poor	
Fully Satisfied	2	7	4	3	16
Not Quite Satisfied	0	7	11	14	32
Totally Unsatisfied	0	5	20	27	52
Total Answers	2	19	35	44	100

Of families totally unsatisfied with services, the majority evaluated their quality for specific problems as “poor” or “satisfactory”. By contrast, of families fully satisfied with the services, more than half rated them as “good” and “excellent”.

Despite their high degree of correlation, however, these housing maintenance indicators complement, rather than duplicate, one another. Whereas the level of satisfaction was to a larger extent determined by the respondent’s emotional attitudes, tolerance, personal demands, and even socio-economic position, the “integral appraisal” was more representative of the perception of real problems. The complementary nature of the indicators is well illustrated in the first row of Table 4.13. Of the families completely satisfied with services there were those who evaluated the quality of services for specific problems as “poor”.

In line with the goals of the first stage of monitoring, the structure and the quantity of resident complaints in the sphere of operation of state-administrative housing organizations were assessed.

In the first place, active (“Red Flag”) complaints were measured. They represented the strongest form of voicing dissatisfaction with the condition of housing maintenance. In this case residents appealed not to the HMU but to a higher-level organization and other institutions not directly concerned with housing services: members of the parliament, local authorities and the media. These types of repair requests usually implied a particularly severe problem which housing maintenance organizations had failed to address and which residents believed the attention of some higher authority would help alleviate.

At the first stage of monitoring, active complaints amounted to 0.06 per family, that is six of each 100 families appealed to the local authorities and/or the media during the year. This type of request usually implied a necessity for a major repair of the house because it was in an emergency condition. A collective

complaint of the residents of one of the houses can serve as a vivid example of active complaints. They had already appealed to the city Housing and Communal Committee (HCC) and to the Mayor's Office. Novosibirsk journalists made a special report about the problems of this house and it was to be shown on the local television.

In the second place, resident repair requests were measured. Residents referred these requests directly to the HMU. This type of request was indicative of less severe problems. Repair requests were not acute enough to resort to higher authorities.

For the area under study, the frequency of such requests was 1.02 a year per family. The total quantity of repair requests was calculated by summing up all resident requests connected with plumbing and electrical equipment as well as heat and water supply problems.

In the third place, latent ("Hidden") complaints were measured. They represented requests voiced by residents when asked whether there existed problems in the maintenance of the building and the grounds for which they had never requested service from the HMU. In the survey conducted, residents answered questions whether there existed any problems with elevator, garbage chute, and the yard territory and cleanliness in the entries. On the one hand, complaints of the third type signify less pressing problems. The residents had become accustomed to them and had put off calling the HMU about them because they believed they would not receive a response. On the other hand, latent complaints constituted a reservoir that gradually overflowed, causing repair requests and "red flag" complaints.

At the first stage of monitoring, the number of latent complaints per family was 3.6. In other words, each family pointed out 3-4 problems in the areas mentioned. The overall distribution of the three types of repair requests is shown in Figure 4.5.

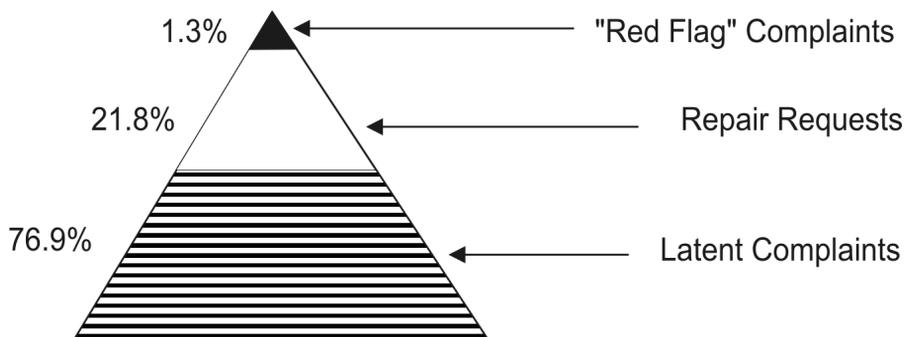


Figure 4.5. Number and Type of Resident Complaints, Novosibirsk, 1993

It can be seen that at a period of crisis in housing, repair requests form something like a pyramid, with latent complaints at the base (76.9%), routine repair requests in the middle (21.8%), and "red flag" complaints at the top (1.3%).

At the first stage of monitoring not only the average number of the three types of repair requests was determined, but also the values of this indicator for the surveyed buildings were calculated. Buildings under

the experiment had different technical conditions and different need for substantial capital repairs, etc. If the average number of repair requests per family was 4.68, then for the buildings under study it varied in the range of 2.73 to 6.89 (Figure 4.6).

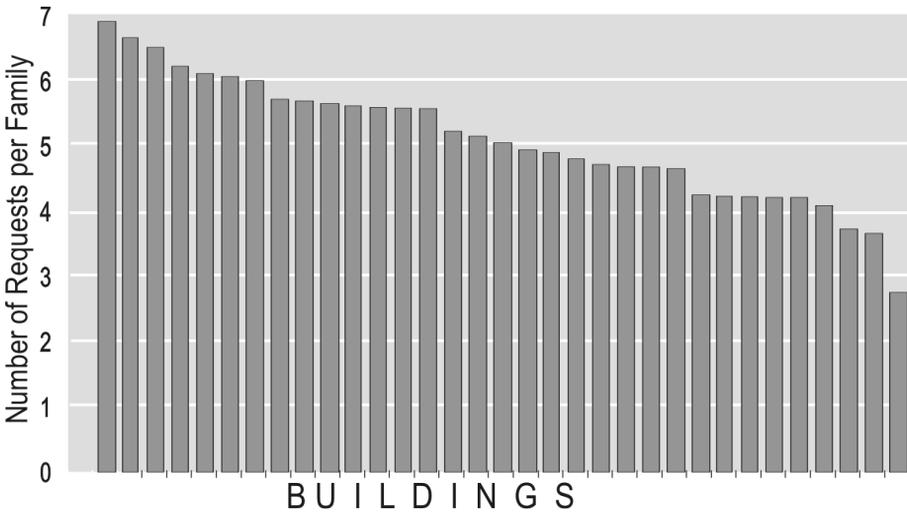


Figure 4.6. Repair Requests in Demonstration Project Buildings before the Market Experiment, Novosibirsk, 1993

Figure 4.6 shows that in more than half of the buildings in the residential area under study, the average problem level was exceeded. It manifested itself in a higher than usual number of resident repair requests. The structure of repair requests in each house was analogous to their general structure, i.e., latent requests predominated, while the number of repair requests and active complaints was low.

Such a deformed structure of complaints meant that the signaling system in razdatok-economy no longer could perform its function of correcting economic decisions. It was revealed that the majority of complaints were not submitted to the organizations responsible for maintaining a certain level of housing maintenance; they existed in hidden form. If positive changes start in housing maintenance, then an intensive transition of latent requests to active (“red flag”) complaints can be forecasted. If this is the case, then the structure of repair requests can be brought to their normal form when they are mostly represented by “red flag” complaints and repair requests.

The following conclusions were made on the basis of analysis of state-administrative housing organizations before the market experiment:

On the eve of the market reform, the quality of housing maintenance dropped to its lowest level. The majority of the residents were dissatisfied with the performance of housing organizations. At the same time, the signaling system, in the form of complaints, worked ineffectively as most of them were latent. It attested to a high degree of alienation of the residents from the housing maintenance sector. A decrease in the quality of housing maintenance was due to the operation of the bureaucratic financial mechanism. It led to a sharp increase in administrative costs accompanied by a lowering of the labor motivation. Within the framework of the operation of the old system, the potential of the state-administrative organizations to improve the quality of maintenance was exhausted.

Chapter 5

Results of the Market Experiment

A typical feature of periods of institutional change at all stages of development of the razdatok-economy in Russia was the active introduction and testing of economic methods characteristic of alternative economies. For example, the current period is a period of market reforms as attempts to use market institutions to lead the economy out of crisis are made. In the end of the XIX century, Russia went through a period of “development of capitalism”. Attempts were made to introduce methods of capitalist economy organization.

The results of monitoring the current market experiment in one of the branches of Russian razdatok-economy, housing, are presented in Chapter 5

§1. Preparation for the Experiment and Conditions for its Realization

Demonstration projects employing new forms of municipal housing stock management and maintenance have been operating since 1993 in the city of Novosibirsk and other Russian cities pursuant to the Agreement on Technical Assistance between the United States Agency for International Development, the Russian Federation, and the Novosibirsk Mayor's Office. The Demonstration Project was designed to show that a private property management company, whose services were procured through a competitive bidding process, was able to achieve appreciably higher management and maintenance service effectiveness under the same external conditions under which public sector maintenance organizations operated. Thus the Demonstration projects represented a market experiment in the housing economy. Its goal was to demonstrate the effectiveness of market mechanisms.

Private management companies represented an alternative type of organization relative to the old state-administrative organizations. The features of new companies were private ownership and the contract (agreement) management model. Such private-contract organizations maintain municipal housing in countries with market economies. Their features are:

1. a company is an independent legal entity, with its own bank account; it forms its own material and technical resources necessary to maintain the housing stock. If there is a lack of materials, then often the local government takes a loan from a bank at some interest rate to buy equipment under condition that the loan will be repaid from the remuneration;²⁸
2. relations between the municipal-stock proprietor and a private company are built on the basis of a management contract concluded for a given period of time;
3. the contract specifies the money allowance for maintenance and the management fee which represents "company remuneration for management"²⁹;
4. selection of the management company is made through a competitive bidding process; when the term of the contract expires, the competition is repeated;
5. to perform activities specified in the management contract, the company hires the necessary employees on a contract basis.

Such relations between private companies and the local government necessitate a regime of "hard" budget constraint. They are characterized by:

- clear determination of the amount of budget allotment; because it can not be increased, the amount of company expenditures is limited;
- the company takes full responsibility for the efficient spending of allotted financial resources; if the company breaks this clause of the contract, then the contract is canceled;

²⁸ K. Mark and D. Telgarsky, *Private Management for State Leased Housing in Eastern Europe* (Moscow: Institute of City Designing and Building, 1991), p. 32.

²⁹ W. Jr. Walters, CPM, *The Practice of Real Estate Management for the Experienced Property Manager* (Chicago: IREM, 1979), p. 433.

- the company works out the policy of managing the expenditures; representatives of local administrations do not interfere in the day-to-day activities of the company.

Under the Demonstration projects principally a new type of relations had to be introduced into the housing economy. Thus an organizational period was necessary. In Novosibirsk this period included three stages.

The first stage began in May, 1992 when a Resident Advisor of PADCO company arrived in Novosibirsk. This company won a contract on rendering technical assistance from the Agency for International Development (USA). In the course of this stage, an Agreement with the Novosibirsk Mayor's office on rendering assistance "in working through the economic mechanisms and techniques of housing maintenance by private companies"³⁰ was signed.

For the first Demonstration Project, the largest district of the city, Leninski, was selected. It was the district where reorganization of the housing management structure had been going on over a period of several years. Its administration showed interest in testing new, market methods of housing maintenance in the course of reforms. To conduct the Demonstration Project, a unit formerly maintained by a HMU was recommended. As it was too big, even before the market experiment, it was planned to divide the HMU into two parts and to create a new HMU in the structure of the district housing trust to maintain it.

The beginning of the second stage was connected with the organization of the Demonstration Project Working Group in October 1992 according to the Mayor's resolution. The Vice-Mayor of the city and his representative, the head of the Housing and Communal Committee (HCC) of the Mayor's Office, the head of the HCC maintenance department and its lawyer, the deputy-head of the administration of the Leninski district, and the head of the Leninski district housing trust which maintained the buildings under the Demonstration Project and the Resident Advisor of the firm PADCO, Inc. (USA), which provided technical assistance to the Novosibirsk Mayor's Office became members of the Working Group. The authors, the research workers of the Institute of Economics and Industrial Engineering of the Siberian Branch of Russian Academy of Sciences, were present at the meetings of the group as independent observers.

Foreign experience in the operation of private housing maintenance companies being new for Russia was analyzed at the meetings of the Working Group. It was also discussed at the lectures of the Resident Advisor and in the course of topical seminars for all the city housing management personnel conducted by lecturers from the USA. The task of the Working Group was to adjust the offered economic instruments to Russian practices and specific conditions of city housing.

During this period, the most difficult task was to determine the owner of the housing stock: the one who will have to enter into a contract with a private company and allot the necessary financial resources to it. According to the Mayor's decision, the HCC played the role of the representative of the owner. It received the housing stock of the future Demonstration Project on its balance instead of the Leninski district administration's balance

³⁰ Resolution of Novosibirsk Mayor's Office N 148 as of 19.02.1993 "On Conducting Demonstration Project on Providing for the Maintenance of the Housing Stock by a Private Company."

where it had been. This decision was made due to the necessity to set up a structure alternative to the district housing trusts. Thus from the very beginning the Demonstration Project was run under the supervision of the city level of housing management.

The management contract between the housing stock owner and a private management company was a legal document not traditional in Russian housing management. It required considerable work on the part of the Working Group to correlate it with the Russian legal norms. Further adjustment of the contract was taking place already in the course of realization of the Demonstration projects.

At the third stage, in February 1993, much work was done to determine specific material and financial conditions of work for the new management company. It received an office in one of the houses in the Leninski district which were under the experiment.

The income and expense budget for the maintenance of the housing stock under the Demonstration Project was also determined at this stage. Total approximate budget had to provide equal financial restraints in the activities under the Demonstration Project and the existing state-administrative housing organizations of the city.

It was also planned to provide equal labor conditions for ordinary employees of future private companies and the employees of all housing trusts of the city. The private company's employees preserved the right to receive job-contingent housing, while their *service records* were kept at HCC which entered into labor relations with them.

Special discussions were held to determine the amount of management fee the owner had to pay the management company and which method will be used.

The third and final stage of the organizational period ended with the open bid for managing the maintenance of the allotted part of the housing stock. An announcement about the open bid was made in the media. The bidders of the competition submitted their applications in accordance with the established requirements. The Resident Advisor of the firm PADCO, Inc. had organized seminars to help the applicants to prepare their maintenance programs which were then presented to the owner of the housing stock. Members of the Working Group became the members of the competition committee which selected the municipal enterprise "Tzentr-Sirena" for participation in the first Demonstration Project.

From April 1, 1993 the enterprise "Tzentr-Sirena" began to work under Demonstration Project-1. It started maintaining the part of the housing stock earlier maintained by HMU-26 of the Leninski district. The head of the enterprise "Tzentr-Sirena" became the manager of the Demonstration Project. She formerly worked as a deputy manager in one of the district housing trusts.

The organizational period of the successive Demonstration projects only included the preparation and conduction of competitions.

Demonstration Project-2 was started in the Pervomaiski district on August 1, 1993. The individual private firm (IPF) "Komfort" began to work instead of HMU-25. This firm was established specifically for this purpose by the winner of the competition who had formerly worked as head of the Production and Technical department of the housing trust in the Pervomaiski district.

From February 1, 1994, Demonstration Project-3 has been under operation in the Dzerzhinski district. It maintains the housing stock instead of the former HMUs number 13 and 37 of the Dzerzhinski district housing trust. The winner of the competition is a former director of HMU-13. To run the project she organized an IPF called “HMU-13”.

The general feature of all three Demonstration projects was the selection of such housing sites where organizational measures were necessary to solve their existing problems. Under Demonstration Project-1 it was necessary to subdivide an HMU which worked ineffectively. Under Demonstration Project-2 there was a chronic lack of administrative personnel as the housing stock was in a deteriorated condition. Through the establishment of the new management company it became possible to hire a qualified manager to maintain this section of the housing stock. Under Demonstration Project-3 it was necessary to join a successfully operating HMU-13 with the neighboring HMU-37 whose performance was rather poor. In the course of the market experiment these two enterprises were successfully joined.

Thus, the market instruments were tested at the most problematic sites. The system of state-administrative organizations represented by housing trusts could no longer manage them successfully.

All types buildings were represented under the Demonstration projects which were run in districts situated in different parts of the city. Districts of the city selected for participation in the experiment were characterized by different qualities of housing maintenance. Traditionally the Leninski district was considered to be a progressive one, while the Dzerzhinski district was average and the Pervomaiski district was underdeveloped.

The main features of the housing stock under the Demonstration projects are presented in the Table 5.1.

Table 5.1.

**The Main Features of the Housing Stock
under the Demonstration Projects**

	Demonstration projects		
	I	2	3
The Demonstration Project Began on	01.04.1993	01.08.1993	01.02.1994
The Name of the Operating Company	“Tzentr-Sirena”	IPF “Komfort”	IPF “HMU-13”
The Area of Maintained Housing Stock, sq. m	74900	28900	165500
The Share in the Municipal Housing Stock, %	1,1	0,3	2,4
The Organization which Formerly Maintained the Housing Stock	HMU-26 of the Leninski housing trust	HMU-25 of the Pervomaiski housing trust	HMU-13 and 37 of the Dzerzhinski housing trust
Number of Maintained Houses: Total,	33	19	42
including:			
2-3 Story	4	10	0
5 Story	23	8	21
9-12 Story	6	1	21

All types of housing maintenance units were represented under the Demonstration projects, from the smallest (19 houses) to the largest (42 houses). Managers of all Demonstration projects represented the main categories of the administrative hierarchy of the city housing economy, from the former head of the housing trust to the former HMU director.

The variety of features that characterized the Demonstration projects made it possible to work through experimental market instruments under different conditions in city housing.

When Demonstration Project-1 was put into operation, the second stage of the economic-sociological monitoring of the market experiment in city housing began. At this stage Demonstration Projects 1 and 2 were the main subjects of observation.

From the very beginning it was planned to introduce unified constraint of budget financing restrictions both for the Demonstration projects and the district housing trusts. It meant:

- 1) unified rules for the determination of the amount of financial resources to be spent on maintaining the housing stock;
- 2) unified rules for the formation of the income part of the budget;
- 3) allotment of the due share of fixed and current assets for maintenance.

At every stage of monitoring, the fulfillment of the experiment conditions was controlled. Expenditures on maintaining the municipal housing stock were determined on the basis of unified normatives and actual tendencies in the housing maintenance. Five groups of expenditures were distinguished.

First, the quantity of different categories of personnel and the required total wage fund were calculated for different housing organizations on the basis of the normative staff roster. In doing so, the characteristics of different houses were taken into account. The relationship between wages and their amount were determined on the basis of a unified wage-and-rating scale. By applying these principles, the initial values of the wage fund and the quantity of personnel to be involved in the Demonstration projects were determined. The share of wages paid to the personnel made up for 35-50 percent of the budget in different housing trusts of the city. The share of wages in the budget of the Demonstration projects was in the same range. It made up 41 percent of the budget for Demonstration Project-1 and 35 percent for Demonstration Project-2.

Second, wage extra charges were also added into the budget. Their amount was determined on the basis of the state laws. These were transferred to the state pension funds. For all the city housing trusts they amounted to 15-20 percent on average. Their shares in the budgets of the Demonstration projects was approximately the same.

Third, expenditures on the services of subcontracting organizations were determined. These were the organizations without which housing stock maintenance was technologically impossible, such as a specialized auto park responsible for garbage disposal; an organization called "Sibirliftremont" which maintained elevators in many-storied buildings; a sanitary and epidemic station controlling activities of housing maintenance organizations and responsible for rat extermination; an All-Russian voluntary fire prevention society and a fire-proof equipment service controlling the fire-proof condition of buildings and their ventilation.

Pricing of their services was determined on the basis of tariff rates authorized by the Mayor's Office. As a rule a share of payments for the services of subcontracting organizations amounted to 10-25 percent in different housing trusts. For the Demonstration projects, the planned amount of these expenditures was set at a level of 14 percent to 18 percent taking into account the characteristics of the housing stock and the necessity to render these services.

Fourth, planned material and energy expenditures were determined on the basis of normatives and practices in materials and power supply (for the illumination of common areas and work places). These usually amounted to 5 percent. The Demonstration projects were not fully supplied with materials. Therefore, additional items of expense were included into their budgets to cover them. Thus, the share of expenditures on materials in the budgets of the Demonstration projects amounted to 15 percent.

Fifth, taking into consideration the physical condition of the maintained buildings and the city budget abilities, provision for expenses to carry out maintenance work by construction subcontracting organizations had to be planned. These expenses made up from 7 percent to 17 percent of the planned budget of the housing trusts. The share of maintenance expenses for the Demonstration projects was set at the same level as for the city housing trusts. Thus, this expense item amounted to 8 percent under Demonstration Project-1 and 16 percent for Demonstration Project-2 as the housing stock maintained under the latter Project was in a state of extreme wear.

According to the rules described for determining the amount of planned maintenance expenses, the amount to maintain 1 square meter of the municipal housing in different city districts was settled. In 1993 it varied from 0.81 to 1.67 relative to the average city value. Thus, in 1993 these values equaled 1.07 and 1.15 for Demonstration Projects 1 and 2, respectively (Figure 5.1).

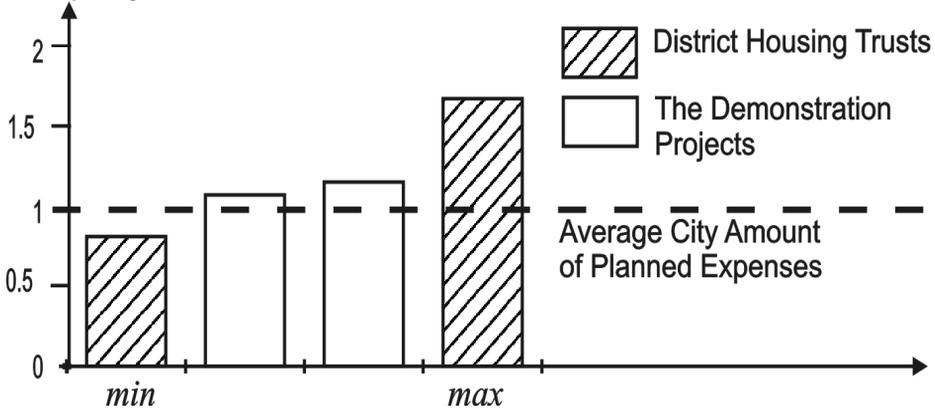


Figure 5.1. Planned Maintenance Expenses per square meter of Housing vs. the Average City Level, Novosibirsk, 1993

Figure 5.1 shows a limiting range of the amount of housing maintenance expenses. It can be seen that the level of planned expenses under the Demonstration projects lay within the set range.

It was also planned to establish equal conditions relative to the income earned under the Demonstration projects.

The income of the housing organizations was planned at such a level as to cover all the expenses. No provision for profit was made. Part of the income in housing fee form was collected by the housing trusts on their own. Housing fee normatives were set at the state level and remained the same

since 1928. Since 1994, housing fee normatives were raised 400 times according to Presidential Decree and decisions of the Mayor's Office.

Another part of independently collected income derived from the lease for nonresidential areas of houses paid by lessees represented by enterprises and organizations. The lease rates were approved by the Mayor taking into account the type of area to be rented (a cellar or the first floor) and the ownership form of the enterprise-lessee. The rates were substantially lower for state and municipal enterprises than for private ones.

In-house utility service line maintenance expenses comprised the third part of income. They were paid by the communal enterprises supplying heat and water since they were the owners of power and water lines and as such, were responsible for their maintenance. When the in-house and in the-range-of-six-meters-around-each-house utility service lines were maintained by the housing organizations, communal enterprises compensated them for their expenses according to the all-city rates.

In 1993, the share of income collected by the housing organizations from housing fee, income from lease and compensation for the maintenance of in-house systems amounted to 23 percent on average.

Analysis showed that for the housing organizations the rules of income collection and its amount was set at the all-city level. Housing organizations, including those under the Demonstration projects, did not have the right to change the established order.

Planned expenses not completely covered by the collected income represented a plan of budget subsidy. Until 1993 the municipal housing maintenance subsidy was a part of the city budget. In 1993 the housing stock was transferred to the district administrations. The housing maintenance subsidy was then allotted from the district budget according to the limits set by the Mayor's Office. In 1993, a share of the subsidy for the city housing trusts was 77 percent on average. The budget subsidy limit for the Demonstration projects was also determined by the Mayor's Office on the basis of requests by the Housing and Communal Committee (HCC) which played the role of owner of the housing stock.

The amount of collected income and budget subsidy were interconnected and supplemented each other. When the amount of subsidy to cover the housing maintenance expenses was determined, the planned income amount was extracted from the amount of the budget expenses. In districts where there was a large number of non-residential areas attractive to the lessees, the budget subsidy was less as the share of collected income was higher. For example, in the Tzentralny district the subsidy amount per square meter of housing area was 0.7 relative to the average city level, while in the Pervomaiski district it was 1.25 because of the large number of buildings not suitable for rent.

The amount of subsidy per square meter under Demonstration projects differed as well. Under the Demonstration Project-1 with a higher than average share of leased space (17.5 vs. 8.8%), the amount of budget subsidy was 0.95 to the city average level. While under the Demonstration Project-2 in the Pervomaiski district with 4.8 percent share of leased space, the amount of subsidy per square meter was 1.15 times higher than the average city level (Figure 5.2).

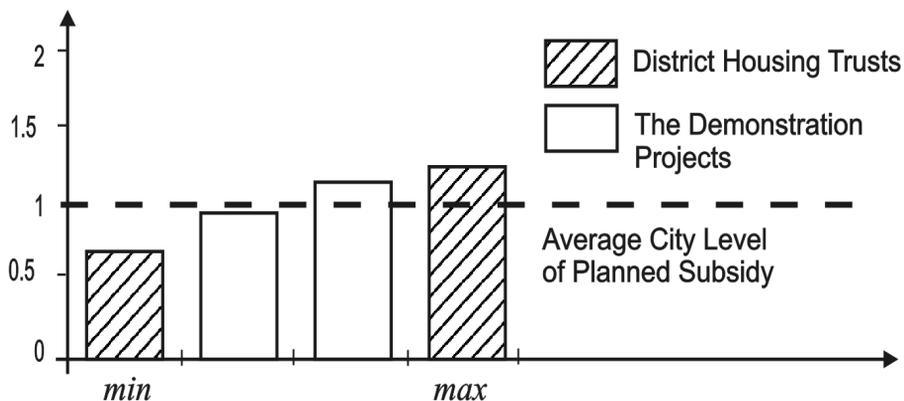


Figure 5.2. Relationship between the Planned Subsidy for the Maintenance of One Square Meter of Housing to the Average City Level, Novosibirsk, 1993

Figure 5.2 illustrates that the amount of planned subsidy for the Demonstration projects was within the range set for the housing trusts.

When the market experiment was planned, provision for equal supply of the Demonstration projects with materials necessary to maintain the housing stock was made.

Until the beginning of the 1990s, the state-administrative organization received fixed and current assets (work premises, automobiles, equipment, materials, stationary, etc.) by distribution in kind and free allocations. In the 1990s, fixed assets were still provided in the form of direct transfers from the budget for the purchase of necessary equipment and construction of garages and warehouses. They were not included into the budget of the housing maintenance expenses. For this reason, no provision for the expenses of purchasing the equipment and rent of premises were made in the budgets of expenses of housing trusts, while expenses on purchasing materials and amortization were at a very low level.

To provide equal working conditions for the Demonstration projects and the housing trusts, the former received production premises, equipment, tools, and the materials necessary to maintain the housing stock. The transfer was made on the basis of split-off balances with trusts which formerly maintained the housing stock now transferred to the Demonstration projects. If there was no possibility to physically split the available materials, then the Demonstration projects received the money equivalent of the necessary material and technical resources.

As the result of purposeful policy of the Working Group on provision for the unified conditions of budget financing and material supply for the Demonstration projects, the budget for maintenance expenses for the Demonstration projects was the same proportion as that for the municipal stock as a whole. For example, according to the plan for 1993, the budgeted expenses for Demonstration Project-1 was 1.06 percent of the total budget for maintenance of the entire municipal housing stock and the amount of housing stock maintained was 1.10 percent of the total municipal stock. For Demonstration Project-2 these figures coincided completely and amounted to 0.3 percent.

During the first year of operation of the Demonstration projects the amount of transferred subsidy equaled the planned amount and was 100 percent relative to the plan. It did not exceed the amount of budget subsidy for

the housing trusts of the city which received a subsidy of 107 percent to the plan in the financial year 1993.

Monitoring of the first Demonstration projects during the first financial year showed that a share of actual expenses did not exceed the allotted share and made up 1.4 percent of total municipal housing maintenance expenses (Figure 5.3).

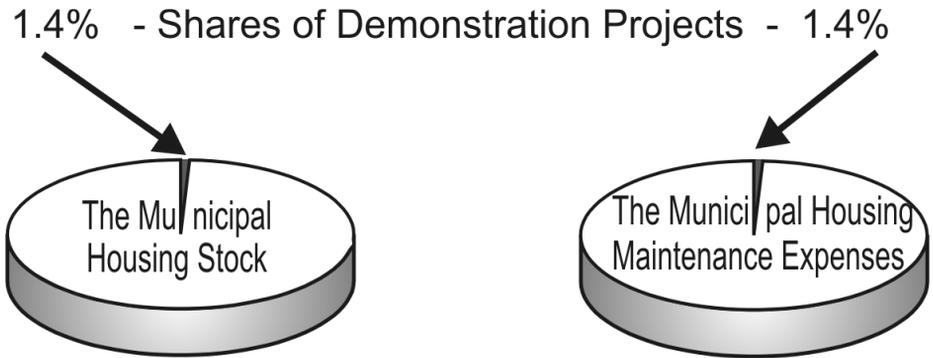


Figure 5.3. Relationship between the Percentage of Expenses under the Demonstration Projects and the Percentage of Housing Stock Maintained by Them, Novosibirsk, 1993

Thus, the rules for determination of the housing maintenance expenses for the Demonstration projects agreed with the rules set for the housing trusts, while the amount of budget allocation corresponded to the share of maintained housing stock and did not exceed the level set for the municipal housing stock as a whole.

Under the Demonstration projects, budget subsidy had to be placed into the accounts of the new housing maintenance companies at the beginning of the planned period, i.e., at the beginning of every quarter for Demonstration Project-1 and at the beginning of every month in equal amounts for Demonstration Project-2. The total amount of budget subsidy was recorded in the management contract and could not be exceeded.

In the course of realization of the Demonstration projects, a quarterly amount of subsidy from the city budget equaled the amount recorded in the contracts. At the same time the term for the transfer of the subsidy from the account of the representative of the owner to the company's account specified in the contract was not always observed. For example, for Demonstration Project-1, only in the fourth quarter of 1993 was the subsidy transferred on time and to the full. While in the other quarters of the first year of the operation, only 27 to 43 percent of planned subsidy was transferred on time, i.e., at the beginning of the quarter.

In conditions of "hard" budget constraint, the amount of expenses under the Demonstration projects during the first year in operation did not exceed the amount of income. For example, according to the results of the first year, the income received under Demonstration Project-1 amounted to 151 million rubles while expenses amounted to 150.4 million rubles.

This situation was typical for all the Demonstration projects and did not depend on the time when they received the amount of subsidy determined in the contract.

Thus, the experimental situation was carefully planned and realized in the housing economy in the form of the Demonstration projects. It became possible to make a justified

evaluation of the effectiveness of these new economic methods. The observance of equal financial constraint helped to evaluate the effectiveness of new institutional elements in their pure form and to compare the results of the operation of companies under the Demonstration projects with the operation of the state-administrative housing organizations of the city.

§2. Overcoming the Defects of Administrative Management

Realization of the market experiment under razdatok-economy conditions in housing resulted in modification of initial prerequisites. While the Demonstration projects were originally planned to introduce new types of private-contract organizations typical of market economies, they eventually took the form of management companies. They differ from private-contract organizations in two essential ways.

First, the management companies did not have production, material, and technical resources of their own to carry out maintenance activities. The necessary resources were given to them free of charge for the whole term of the contract. Correspondingly, the management companies could not disperse production resources, i.e., to sell, exchange, etc. them as they thought best.

Second, the management companies maintained a part of the municipal (state) housing stock. Thus the rules for their operation, the order of their financing, the standards of work, and the order of hiring employees were to a large extent determined on the basis of norms regulated at the level of the Mayor's Office and at the state's level.

As a result, the management companies began to represent legal entities established to maintain a specific unit of the municipal housing stock. These legal entities received the amount of production resources necessary to maintain the unit. At the head of the management company was a manager selected by the owner of the housing stock on a competitive basis.

In the course of realization of the Demonstration projects, private companies were substituted for the management companies. It was an adjustment of the market experiment idea to the specific conditions of state housing, which was in the process of reformation during the period from 1993 to 1994. Thus realization of the market experiment in the form of the management companies meant that although the institution of state (municipal) ownership was preserved and the normative order still functioned, new institutional elements of the market economy in the form of private organizations with a contract management model began to function (Figure 5.4).

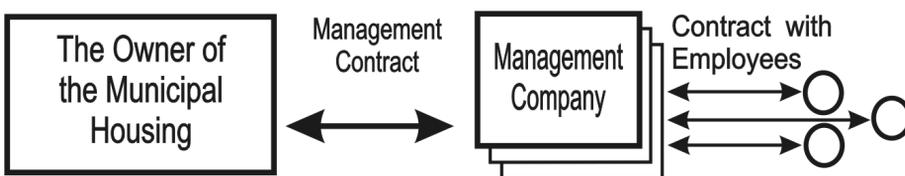


Figure 5.4 Contract Management Model of the Municipal Housing Maintenance

Management companies had to solve the same problems in maintaining the municipal housing stock as did the state-administrative organizations

represented by the district housing trusts. At the same time, the management companies principally differed from the state-administrative organizations. They were distinguished by:

* **a contract management model:** The relations between the owner of the housing stock and a management company were regulated by a management contract where mutual rights and responsibilities for carrying out particular kinds of work were specified in contrast to the administrative management in state housing organizations;

* **competition (bid) as a mechanism of operation for organizations:** The selection of a manager (management company) was made by the owner of the housing stock in the course of open competition which differed from the common practice of appointing heads of state-administrative housing organizations by a higher administrative level;

* **changing the economic status:** Maintenance of a part of the municipal housing stock with the budget subsidy apportioned to it, a normative staff roster, along with fixed (except for the housing stock) and current assets were transferred to the management company, but unlike the state-administrative organizations, it did not have higher administrative bodies. It had its own budget and was itself in charge of the allotted funds and resources as a legal entity;

* **new financial mechanism:** When a management company entered into a maintenance management contract with the owner of housing stock, maintenance expenses of the company were separated from its management costs. Management costs were called management fee, the payment for management. While in state-administrative organizations management costs were not separated from the maintenance expenses, in the management companies the amount of payment for management was separated from the budget and was strictly controlled by the owner. Also, under contract conditions, the manager received independence in distributing the resources between the two main funds, the wage fund and the materials and repair fund;

* **new labor incentives:** The threat of contract abrogation and losing a job with an attractive wage was the incentive for quality work of the management company (a manager) and its employees. It differed substantially from labor stimulation through a system of bonuses, because in the management companies, no provision for bonuses for any category of employee was made;

* **orientation towards consumer satisfaction:** Satisfaction of residents living in the housing stock maintained by a management company became the criterion for determining the successfulness of its work. Growth of resident dissatisfaction could become a reason to abrogate the contract between the housing stock owner and a management company. It differed from the control by higher administrative personnel and organizations which was a specific feature of a state-administrative housing maintenance organization.

These principle differences between the management and state-administrative organizations permitted the management companies to overcome certain defects in administrative management already in the first year of their operation.

Introduction of a new instrument of control over the level of management costs in the form of a management fee was the first result of the market experiment. Management fee represented a fixed amount paid to a manager (a management company) by the owner of the

housing stock for managing the housing maintenance process. The management fee in essence replaced the wage fund of the administrative personnel of the trust. Thus the rules of forming management costs were changed and were determined as an additional amount of expenses on maintaining the housing stock.

The management fee was agreed upon by the owner of the housing stock and a manager-bidder. For Demonstration Project-1, the amount of management fee was fixed at the level of 6.5 percent of the income item of the budget. It was determined in the process of negotiations and consultations with the Resident Advisor and was not reconsidered in the first year of operation.

In the beginning, the amount of the management fee under Demonstration Project-2 was also fixed at the level of 6.5 percent of the income item of the budget. But in six months it was lowered on a mutual agreement between the owner of the housing stock and the management company. Simultaneously, the rules of forming the management fee were changed.

For Demonstration Project-3, from the very beginning, the management fee represented a fixed amount not connected with the amount of the income item of the budget. In six months the management fee was increased on the manager's proposal.

The principle difference between the management fee and management costs in the state-administrative organizations was that the amount of the former was stated in the contract and could not be changed by the manager through the redistribution of the budget financial resources. Thus, there was no incentive for managers to spend the budget financial resources incompletely in order to increase their own income thus increasing the management costs as was commonly practiced by the housing trusts.

Management fee under the contract management model in the Demonstration projects made it possible to determine and control the amount of management costs. These costs always existed but there were no adequate instruments to control them in former times. Under the management model of the Demonstration projects, the owner of the housing stock directly and the manager indirectly were both interested in reducing the amount of management costs. The owner of the stock was interested in the reduction of the management costs because, in this case, the amount of financial resources spent directly on maintaining and improving the condition of his housing stock would increase. A manager or a management company, being interested in the growth of the management fee, would also be interested in decreasing total expenses as it would mean an increase in competitiveness and the ability to prolong the term of the management maintenance contract.

The Demonstration projects demonstrated how these interests were realized. For example, on entering the management contracts under Demonstration Project 1 and 2, where the management fee was fixed as a percentage of the income item of the budget, the amount of income unexpectedly increased greatly. It was connected, first, with the growth of collected income as the housing fee rates increased 420 times and the lease rates increased 6 times. Second, the amount of budget subsidy to cover the expenses of paying for the services of subcontracting organizations increased as well. In the latter case the increase of tariffs was from 400 to 1000 percent. It led to an unexpected and considerable growth of the management fee. Under such conditions, the owner of the stock under Demonstration Project-2, in the second quarter of 1994, offered to reconsider the rules of determining the management fee. Instead of calculating it as a share of income, he offered to consider it as a fixed amount at the level of the previous quarter, i.e., at the level of the manager's salary (including

supplementary benefits). For the periods to follow, an increase in the management fee had to be proportionate to the increase of the official minimum wage rate in the Russian economy. The amount of the official minimum wage rate is authorized by the President's or Parliament's decree. Now, the offered amount was less than that stated in the contract, but the manager agreed to the offered conditions as the actual wage level corresponded with her demand.

Another way to stabilize the share of management costs in conditions of growing expenses occurred in Demonstration Project-1. In this case the owner of the housing stock did not offer to reconsider the amount of the management fee which was growing disproportionately. Nevertheless, the manager herself directed the extra income to fulfilling an additional work load maintaining the entries of a 9 story building. Thus, an increase in the absolute amount of the management fee did not lead to an increase in the share of management costs in the total amount of expenses.

These examples demonstrated that management fee separation, showing the owner of the housing stock and the manager the amount of management costs, helped to mutually control this amount and allowed neither its groundless growth, nor decrease. At the same time, economic control and evaluation of the real amount of management costs in the state-administrative housing organizations under the existing accounting system were extremely complicated. At the first stage of monitoring, special methodology had to be developed to calculate the real amount of the management costs. Also, it was necessary to collect a large amount of additional information and to make scientific analysis of the results presented in Chapter 4.

The analysis of the actual management costs under the Demonstration projects during the first year of their operation showed that their amount relatively decreased (Table 5.2).

Table 5.2

A Share of the Management Fee in the Direct Costs under the Demonstration Projects, Novosibirsk, 1993-1994

	Demonstration Project-1		Demonstration Project-2	
	in the beginning (the II quarter plan)	in a year (actual)	in the beginning (the IV quarter plan)	In a year (actual)
Direct Expenses: Total, thousand rubles	7561	101989	7495,7	65353
Management Fee, thousand rubles	514	6488	539,4	3349
A Share of Management Fee in Direct Expenses, (percent)	7	6	7	5

The data presented in Table 5.2 demonstrate that in the beginning, the management fee in the Demonstration projects direct expenses, i.e., expenses minus obligatory extra charges and payments, amounted to 6 percent on average in Demonstration Project-1 and 5 percent in Demonstration Project-2.

Thus, management companies received amount of financing equal to the state-administrative housing organizations on a per square meter of maintained housing basis. They fixed the amount of management costs in the

form of the management fee and separated it from the financial resources spent on maintenance activities. As a result, the amount of management costs was decreased by almost 1.5 times and amounted to 5.5 percent on average against 8 percent in the state administrative organizations.

Reduction of the share of the management fee and the preservation of the attractiveness of its absolute amount were the first results of the operation of the new mechanism and of a contract management model in the management companies. Separation of management costs in the form of the management fee resulted in the inability to redistribute the financial resources from the maintenance activities to an increase in management costs under the new financial mechanism.

The second result of the operation of the new mechanism and the introduction of a contract management model was that the share of the wage fund in the total amount of expenses of maintaining the housing stock was changed. The management companies received the full amount of the wage fund according to the normative staff roster due for the maintenance of the housing stock, but used it in a different way than the housing trusts. The total number of employees in comparison to the HMUs did not decrease. At the same time the wage fund level for all the employed was increased by 30 percent on average. However, the share of the wage fund in the total amount of expenses to maintain the housing stock fell to 46.5 percent in the management companies compared to 59 percent in the housing trusts.

It became possible to increase the wage level for the employees of the management companies because they received the full amount of the wage fund according to the normatives for maintenance. At the same time, HMUs did not receive the full amount of this fund as it was partially redistributed to the higher trust structure in the form of different “savings”. It was spent on maintaining the administrative personnel and establishing trust subdivisions and departments.

Under the Demonstration projects the wage rates were increased to such an extent as to make them competitive with the ordinary HMUs. Thus it became possible to attract employees who were adequately qualified. As a result of such increase, the wage levels for ordinary employees agreed with the work load they had to perform according to the normatives of maintenance.

Through the decrease in the share of management costs and the share of the wage fund in the total amount of financial resources received by the management companies, it became possible to increase the share of financial resources spent on repairs. In comparison with the state-administrative housing organizations where this share amounted to only 33 percent, it was 48 percent on average in the management companies. Redistribution of financial resources allocated to the management companies for housing maintenance relative to the city housing trusts is shown in Figure 5.5.

Such redistribution of financial resources resulted in carrying out a larger work load than was possible in any other HMU. Under the Demonstration projects, old accumulated housing maintenance problems started to be resolved. Under Demonstration Project-1, a long awaited entry repair was completed and a large road area between the buildings was paved. Under Demonstration Project-2, it became possible for the first time to repair and clean the ventilation systems in the majority of the houses, to replace stand pipes, to partially repair the concrete and slate roof, and to pave part of the access road.

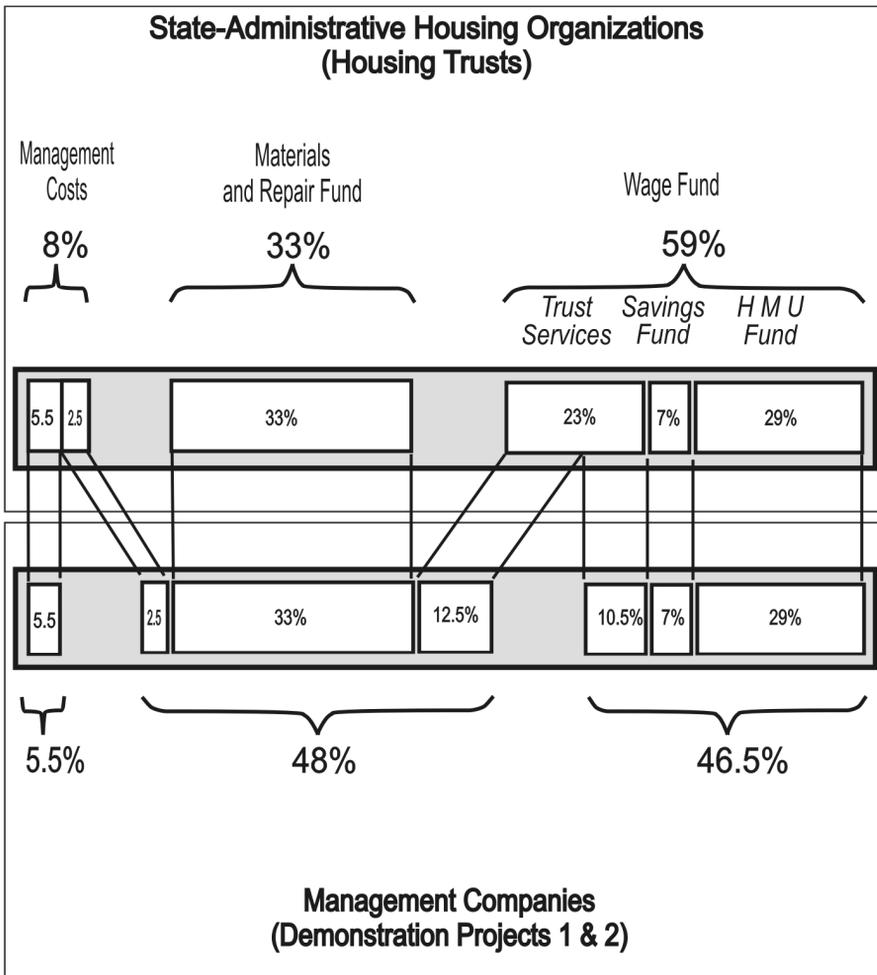


Figure 5.5. Redistribution of Financial Resources in the Course of the Market Experiment in Housing, Novosibirsk, 1993-1994

According to the results of the city competitions in 1994 and 1995, the manager of Demonstration Project-2 received diplomas for the high level of order in the maintained territory. Thus, conditions of the Demonstration projects stimulated the managers to redistribute financial resources at their disposal according to the real problems and to spend it on improving the physical characteristics of the maintained housing stock. It became the third result of the operation of the new mechanism and the contract management model.

Thus it became possible to overcome the defects of the administrative management model and to block the bureaucratic financial mechanism of the old administrative management model. Already during the first year of operation, within the framework of the same volume of the budget, new proportions in the distribution of the state financial resources were formed in the management companies (Table 5.3).

The data of the Table 5.3 illustrate that the shares of management costs and the wage fund reduced while the share of expenses on materials and repairs increased.

Economic Proportions in Spending the State Financial Resources on Maintaining the Municipal Housing, Novosibirsk, 1993-1994, %

(without money paid to the subcontracting organizations and extra wage charges)

	Management Costs	Wage Fund	Materials and Repair Fund
Housing Trusts	8	59	33
The Demonstration Project-1	6	54	40
The Demonstration Project-2	5	39	56

The contract management model used in the Demonstration projects gave freedom to managers and made it possible to establish a relationship between the wage fund and materials and repair fund depending on the specific features of the maintained housing stock. As the condition of the houses required a large amount of repair work, the priorities naturally shifted towards an increase in the share of financial resources spent on repairs. The worse the condition of the maintained stock, the larger the amount of financial resources necessary to carry out repair work. For example, the share of financial resources spent on materials and repairs amounted to 56 percent under Demonstration Project-2 compared to 40 percent under Demonstration Project-1.

Thus, new conditions of operation of the management companies made it possible to spend financial resources from the municipal budget in the most efficient way. The results of the second stage of monitoring of the market experiment demonstrated that it became possible to reduce the share of non-productive expenses and to spend a larger amount of state resources on solving the most acute problems in housing maintenance.

§3. Restoration of Labor Motivation

The management fee, as the element of contract management model, performed two functions. One of them, already described, consisted in the isolation of the management costs and blocking the bureaucratic financial mechanism characteristic of the administrative management model. Another function was to form an effective labor motivation for the managers of management companies.

First of all it was connected with the high level of the management fee. The share of the management fee in the total expenses was not higher than the management costs on average in the branch, but it was spent differently. Under the Demonstration projects the management fee was paid to one manager or a management company which replaced the trust structure. Also it was not distributed among the trust administration. As a result, under Demonstration Projects 2 and 3, the manager's income corresponded to the income of the trust heads in the state-administrative housing organizations.

Another feature of the management fee was the possibility to spend it at the manager's (the management company) discretion and not according to the normative rules. The housing stock owner only controlled the amount of the management fee which corresponded to the amount stated in the management contract. As it was not regulated how the management fee was spent,

the manager or the company decided it themselves. It could be used on increasing the manager's salary as was done under Demonstration Projects 2 and 3, or to increase the income of the management company as was the case under Demonstration Project-1.

Freedom in spending the management fee as well as its relatively high level were the main incentives for managers and management companies to work under the Demonstration projects. Managers of all three Demonstration projects who replaced former HMU directors were energetic, qualified specialists for whom the offered conditions of work seemed attractive. For this reason they were interested in preserving and prolonging the lengths of the management contracts. For example, under Demonstration Project-1, the management contract had been dissolved on the initiative of the housing stock owner, but the manager of the project participated again in the competition for the maintenance of this part of the housing stock.

Managers of the Demonstration projects used new forms of employee involvement in work, placing the personnel, and determining wage levels which differed from the practices of the state-administrative housing organizations.

While according to the normative staff roster labor contracts were open-ended, managers of the projects concluded contracts with employees for the term of the management contract. Specific work load levels, production functions, and wage levels were stated in the contract concluded with each employee. At the same time, no bonus payments were specified in them. Personal interest in preserving the working place with an attractive wage had to play the role of an incentive. As the Russian economy of that period was highly inflationary, when a person was hired, it was specified that the wage level would be changed according to the decisions on adjusting the minimum salary rates to the inflation rate in the state organizations.

The possibility to carry out an independent personnel policy envisioned in the Demonstration projects made it possible for the managers to take into account the specific features of the maintained housing stock and to set priorities in current activities. After the first year of the operation of Demonstration Projects 1 and 2, both general and specific features of personnel policy that the managers held to could already be noticed.

Half of the housing stock in the Leninski district formerly under the HMU-26 participated in Demonstration Project-1. Correspondingly, it was planned that half of the employees of the HMU-26 would work in the new management company. It was a worker's decision whether to take a new position or not. Those who wanted were put on the list to be considered by the manager of the Project. The work load level and production functions of those to be hired were discussed in the course of negotiations. The task of the manager was to hire the most qualified employees of the former HMU.

The normative wage fund transferred to the Demonstration Project made it possible for the manager to offer the employees higher wages than in the HMUs. On average it was 34 percent higher than in other HMUs of the district. The number of hired workers was 60 percent of the normative staff roster level. It should be mentioned that in former HMU-26, only 48 percent of the number of employees on which the work load and wages were based in the staff roster were actually working.

Thus it was demonstrated that if budget financing remained on the same level, it became possible to increase the number of employed by 12 percent with a 34 percent increase in their wages.

Comparison of the wage rates under Demonstration Project-1 and the neighboring HMUs showed that from the very beginning not only the average wage rates increased, but also the priorities in wage levels for different categories of employees changed (Table 5.4).

Table 5.4

Relationship between the Wage Rates under the Demonstration Project-1 and HMUs of the Leninski District, Novosibirsk, 1993-1994
(for employees who worked the full month)

	In the Beginning of Work; April 1993	By the End of the First Year in Operation; March 1994
Manager	1,13	1,14
Engineer	1,19	1,14
Chief Bookkeeper	1,34	1,81
Foreman	0,92	1,15
Resident Relations Personnel (average)	1,57	1,86
Plumber	0,8	1,55
Electrician	0,79	*
Gas and Electric Welder	1,3	*
Yard Cleaner	1,53	1,58
Entry Cleaner	1,81	1,77
Chute Attendant	0,93	0,85

* In the Leninski district in 1994 electricians and gas and electric welders were transferred from the HMU staff to the trust . As their functions changed, no comparison for these categories of workers were made.

The most significant increase in wages was made for the yard men and entrance cleaners, 1.53 and 1.81 times respectively. These categories of employees were always the lowest paid in housing maintenance. At the same time the condition of yards and cleanliness in the entries, according to the resident survey conducted before the Demonstration Project was initiated, were the most problematic. As a result of such an increase in the wage levels of operating personnel, they came close to those of current repair personnel.

It resulted in an increase in the quality of maintenance in these aspects of performance. A comparison of resident assessments before the Demonstration Project and in half a year after its initiation showed that the assessments of yard and entry cleanliness increased most significantly, 3.2 and 1.9 times respectively.

It meant that from the very beginning the manager succeeded in finding an optimum relationship between the number of people employed and the wage levels for the operating personnel. It had a positive influence on the results of work. This relationship was preserved at later periods, an increase in the wage levels for these employees corresponded to the increase in the minimum wages in the state organizations. At the same time the assessments of work continued to grow constantly during the whole course of the experiment. Thus it was proved that the manager chose the right policy towards operating yard men and entrance cleaners.

At the same time, such an optimum relation was not found for chute attendants. Their wage levels in the first year of the experiment were lower

than those in other HMUs. The resident assessment of garbage chute maintenance after a year of work of the Demonstration Project was 3.4 and remained one of the lowest compared to other aspects of performance of the management company.

Comparison between the assessments of the work of plumbers and electricians showed that during the first six months of the Demonstration Project these assessments were lower than before. The manager recognized that the problem was connected with an increased number of requests for plumbers and electricians. For this reason, at the beginning of the experiment, wages of plumbers and electricians were 0.79 to 0.80 of the level at other HMUs, then, by the end of the first year of operation, their wages were 1.55 times higher than in other HMUs. As a result of such policy, current repair personnel began to work better. The results of the resident survey attested to this fact as well. But on the whole their assessments tended to be lower than those put to yard and entrance cleaners by 12 percent. Again, it attested to the fact that for this category of employees the optimum relation between the number of those employed and their wage levels was not found. The manager did not hire enough electricians and plumbers. It resulted in two major electrical and plumbing equipment accidents in the first year of the experiment.

The white-collar personnel policy under Demonstration Project-1 was varied. The most considerable wage increase was made for the resident relations personnel, a dispatcher, a passport clerk, and a cashier who was in charge of payments from the residents. They were paid 1.57 times more than in the state-administrative housing organizations. Before the market experiment was initiated, this category of employees was low-paid, while residents constantly complained about their performance. They were often rude, inattentive, and indifferent towards residents. Monitoring showed that in the course of the market experiment, a share of residents dissatisfied with the style of work and the level of responsibility on the part of this category of employees was reduced to 12 percent.³¹

Wages of the executive director and a chief engineer in the first year of the experiment was 14 percent higher than in other HMUs. As the work load levels for these personnel and the complexity of their work did not differ from those in other HMUs, there was no necessity to additionally stimulate them.

The salary of the chief accountant was increased by 34 percent. Such an increase was the highest in comparison to the rest of the administrative personnel (AP). It was due to the fact that in the management company a chief accountant had additional functions compared to those in other HMUs. She had to draw up the balance sheet of the firm, enter into contracts with the lessees, etc. Actually, the chief accountant in the management company held the position of deputy manager for economics and finance. By the end of the first year of the operation of the Demonstration Project, the salary of the chief accountant was 1.81 times higher than the salary of an accountant at the HMUs of the district. Another, more qualified specialist was hired. In the course of the experiment, the work of the chief accountant was becoming more and more complicated and her financial and material responsibility was increasing. Thus her qualifications had to be constantly improved. She

³¹ Resident Assessment of the Demonstration projects presented in this section are discussed in greater detail in § 4 of this chapter.

had to acquire new professional and computer knowledge, thus her salary had to be adequately increased.

In general, the analysis of wage levels under Demonstration Project-1 compared to the wages of employees in other HMUs showed that from the very beginning a difference in salaries between AP and other categories of employees was growing smaller. For example, when in the neighboring HMUs a difference in salaries between the director and a cleaner was 3-fold, in the Demonstration Project it was only 1.9 times (calculations were based on the data of the Table 5.5).

Table 5.5

Actual Wage Levels, thousand rubles, Novosibirsk, March 1994
(for employees who worked the full month)

	Demonstration Project-1	HMU-23 of the Leninski district
Executive Director	247,3	216,7
Chief engineer	218,0	191,4
Accountant	241,0	132,9
Foreman	206,9	180,0
Resident Relations Personnel	156,5	83,9
Plumber	206,7	132,4
Gas and Electric Welder	240,9	X
Electrician	198,1	X
Yard Cleaner	210,8	133,7
Entrance Cleaner	129,6	73,2
Chute Attendant	142,6	166,4
Elevator Operator	96,5	X

The policy implemented by the manager of Demonstration Project-1 in relation to the personnel resulted in greater interest in their work, collective labor unity, identification with the Demonstration Project and its achievements. Attractiveness of the work increased as well, i.e., the number of those who wanted to work in the management company was also growing. When there were vacancies, they were quickly filled.

Demonstration Project-2 was put into realization on the basis of the former HMU-25 of the Pervomaiski district; its employees began to work under the Project. The task of the manager this time was reduced to the selection of workers on the staff of the former HMU to be hired by the management company. In this district of the city, labor supply was higher than the demand for it: there were not enough working places and many residents of the district had to work in other districts of the city. Preserving his/her work place for the majority of ordinary employees under Demonstration Project-2 was already an incentive in itself. For this reason, in the beginning, the manager did not practically change the wage levels and the number of employees (Table 5.6).

Table 5.6

Relationship between the Wage Levels under the Demonstration Project-2 and in HMUs of the Pervomaiski district, Novosibirsk, 1993-1994
(for employees who worked the full month)

	August 1993	August 1994
Engineer	1,06	1,80
Chief Accountant	1,09	1,53
Foreman	1,05	1,50
Resident Relations Personnel (Average)	1,10	1,83
Plumber	0,94	1,04
Electrician	0,75	1,02
Gas and Electric Welder	1,07	1,08
Yard Cleaner	1,03	1,18
Entrance Cleaner	1,03	1,18
Elevator Operator	1,06	0,97

At the beginning of Demonstration Project-2, the wage levels of workers was on average only 2 percent higher than at the HMUs of the district. The highest wage increase was made for the resident relations personnel. It became 10 percent higher than the wages of similar workers in other HMUs. At the same time, the wages of plumbers and electricians were set at a lower level than in other HMU by 6 and 25 percent respectively.

The manager determined the main aspects of the personnel policy by analyzing the maintenance problems that existed. The condition of the housing stock demanded shifting the center of mass away from the constant “patching up the holes” on capital repairs such as reconstruction of the utility service lines, restoring the roofing, paving the roads, etc. These kinds of work could not be performed by the available staff and it was necessary to use the services of specialized organizations. Such reorientation of activities called for the inspection of the housing stock, a larger amount of organizational work on finding contractors, entering into contracts, purchasing the necessary materials, renting vehicles, etc. Thus it became necessary to form a team of qualified management personnel whose functions would be considerably broader than of those formerly doing that work. For this reason in a year, the level of their salary increased to a larger extent compared to other categories of employees. In comparison to the administrative personnel of other HMUs in the district, the management personnel of Demonstration Project-2 had 1.67 times higher salary.

Priorities in current repair work were also changed. Greater attention was now paid to improving the territory and cleaning the entrances. By the end of the first year, wages of yard and entrance cleaners were increased and became 18 percent higher than the wages of HMU workers.

Wages of current repair personnel got closer to those in the HMUs of the district and even became higher by 2 to 8 percent. Unlike other categories of workers, work load levels and jobs for plumbers and electricians practically did not change. Fulfilling a larger number of resident requests came from capital repairs of the utility service lines by organizations and subcontracting brigades.

As a result, in 8 months, wages under Demonstration Project-2 were on average 31 percent higher than those in the HMUs of the district.

Effectiveness of the personnel policy to which the manager of the Project adhered was confirmed by the growth of resident assessments. Surveys conducted half a year and a year after the initiation of the Project showed that in general the level of assessments was constantly growing. The assessments of the work of yard and entrance cleaners grew to the largest extent: they were from 10 to 13 percent higher than the average level of assessments of other aspects of performance. The assessments of the work of plumbers and electricians in the first six months were not high, but by the end of the year they increased by 2 to 8 percent. The dynamics of assessments is described in greater detail in the next paragraph.

Analysis of the market experiment under Demonstration Project-2 showed that it was possible to organize an effective management team headed by a manager capable of solving the problems of neglected housing stock independently, without the supervision of higher organizations.

An important result of the Demonstration projects was the determination of effective proportions between the wage levels and the results of their work for the majority of workers. The Demonstration projects showed that if budget subsidies and corresponding rights and responsibilities were transferred to independent management companies, working conditions and wages were provided such that the results of the work were better than those in the state-administrative housing organizations.

§4. An Increase in the Quality of Maintenance at the Experimental Units

When the Demonstration projects were put into realization, the behavior of residents concerning housing maintenance became much more active. Resident attitudes toward the problems that existed became much more active, i.e., they no longer wanted to reconcile themselves to the problems that existed for many years. They began to submit their requests to the new organizations much more often (Table 5.7).

Table 5.7

**Dynamics of Residents Repair Requests under
the Demonstration Project-1, Novosibirsk, 1993-1994**

Type of Request	In the year before the experiment		In the year of the experiment	
	%	per family	%	per family
Active complaints ("Red Flags")	1.3	0.06	1.0	0.05
Repair Requests	21.8	1.02	46.0	2.4*
Latent Complaints	76.9	3.60	53.0	2.77
Total	100.0	4.68	100.0	5.22

* According to the data of actual registration of requests

During the first year in operation, the structure of resident requests in Demonstration Project-1 changed. The number and share of repair requests increased. On average, each family began to contact the housing maintenance

organizations 2.4 times more often than before. The number of requests during the year in operation amounted to 5238. At the same time the number and the share of latent requests declined. The share of active complaints (“red flags”) dropped as well (Figure 5.6). The same trends in the structure of requests were observed under Demonstration Project-2.

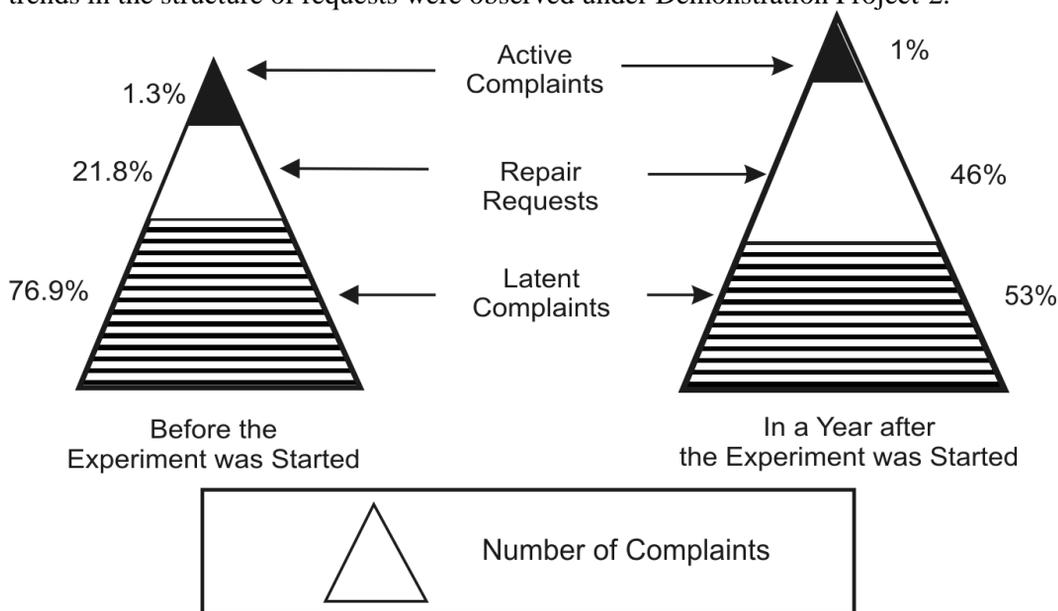


Figure 5.6. Changes in the Structure of Resident Requests in the Course of the Experiment, the Demonstration Project-1, %, Novosibirsk, 1993-1994

Activation of resident behavior meant that the “iceberg” of problems that had accumulated in the years of operation of the state-administrative housing organizations began to surface.

A characteristic example is a request submitted to the management company under Demonstration Project-2 by a resident. A resident of the house under the Project requested that the roof of the house in which she lived should be immediately repaired as it had been in the state of emergency for more than 10 years and leaking because of a defect in the construction. As this repair work required additional financial resources, it could not have been performed in a short period of time. The resident took legal action. The court passed a verdict in her favor and obliged the management company to carry out the necessary repair work. According to the court decision the necessary financial resources from the budget were allocated to the company and the repair work was performed.

An attitude of interest by the residents towards the services of the management company manifested itself in the reduction of the value of the alienation indicator. On the eve of the experiment, the share of residents who had a reason to contact the HMU but did not do so because they saw no use in it, amounted to 31 percent. In the course of realization of the Demonstration projects the value of the alienation indicator began to reduce (Figure 5.7) and became lower than the average city value, 27.6 and 28.4 percent compared to 35.5 percent respectively.

A growing number of resident requests and a shrinking of the value of the alienation indicator meant that the residents hoped that the management companies would cope with long-existent housing maintenance problems.

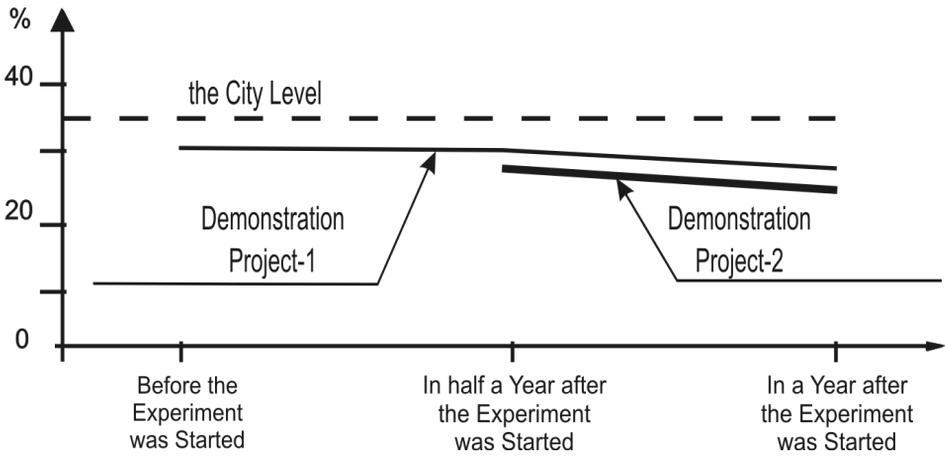


Figure 5.7. Dynamics of the Resident Alienation Indicator, Novosibirsk, 1993-1994

Thus the management companies had to work in more tense conditions in the first year of the Projects. It was connected with a greater number of requests. For example, the number of requests to plumbers and electricians under Demonstration Project-1 was growing from quarter to quarter and it only stabilized by the end of the first year (Figure 5.8). During the first year of the experiment the number of requests was 2.4 times higher than in the previous year.

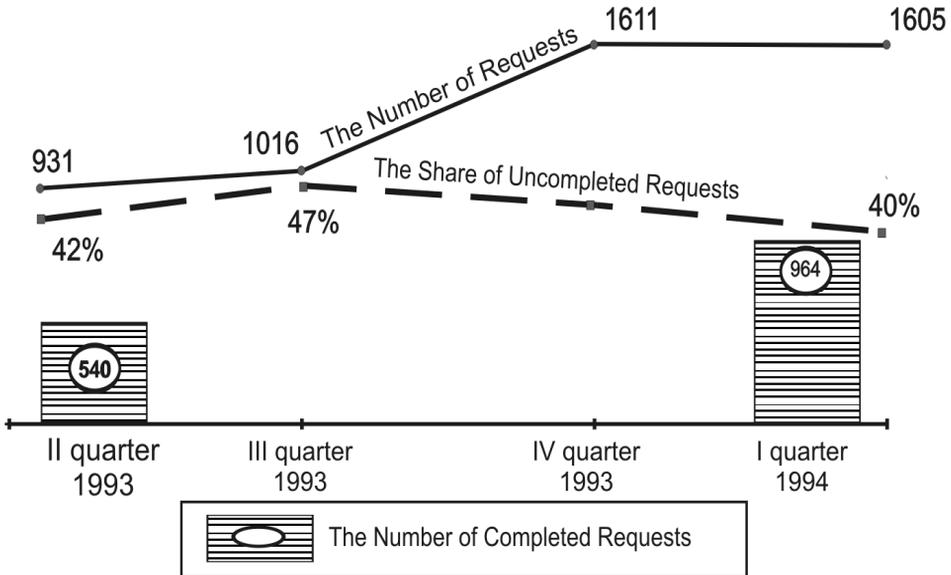


Figure 5.8. The Number of Requests to Plumbers and Electricians and the Effectiveness of Their Completion, the Demonstration Project-1, Novosibirsk, 1993-1994

The growing number of requests influenced the effectiveness of their completion. Figure 5.8 illustrates that during periods when the number of requests was growing, the share of uncompleted requests was increasing. In October 1993, it amounted to 47 percent compared to 42 percent before the experiment was started. When the number of requests stabilized, the share of uncompleted requests began to decrease. At the same time, the number of completed requests increased from 540 to 964 by the end of the first year, or 1.8 times.

Concurrently, from the very beginning of the experiment, the share of promptly completed requests began to grow. On the eve of the experiment 36 percent of requests had been completed promptly. Half a year after the experiment was started 39 percent of requests, and by the end of the first year of the experiment, 46 percent were completed promptly (Table 5.8).

Table 5.8

The Effectiveness of Completing Requests by Plumbers and Electricians under the Demonstration Project-1, Novosibirsk, 1993-1994

A share of requests, %	April 1993	October 1993	April 1994
Promptly Completed	36	39	46
Completed After Repeated Calls to the HMU	22	14	14
Uncompleted	42	47	40

Although the plumbers had to work in conditions of a growing number of requests, resident assessments of the results of their work in the course of the experiment both under Demonstration Project-1 and 2 were constantly improving (Figure 5.9).

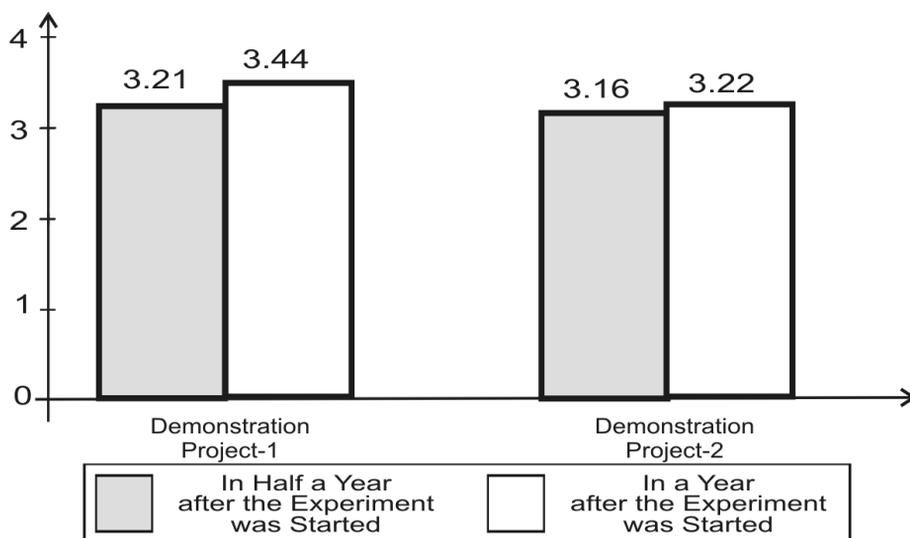


Figure 5.9. Dynamics of Assessments of Performance by Plumbers under the Demonstration Projects, Novosibirsk, 1993-1994

Under Demonstration Project-1, the assessment of plumbers performance increased to 3.44 during the first year of the experiment, under Demonstration Project-2, where the housing stock and the utility service equipment was more worn-out, to 3.22.

The assessment of the performance of electricians increased constantly in the course of the experiment (Figure 5.10).

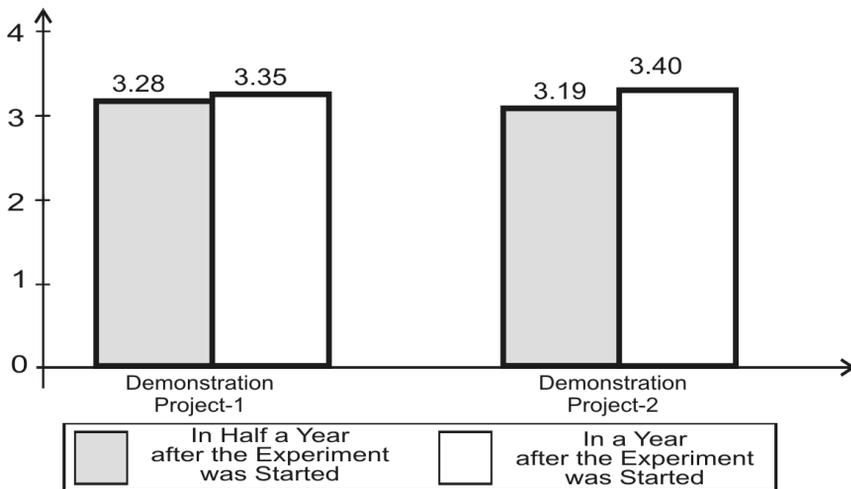


Figure 5.10. Dynamics of Assessments of Performance by Electricians under the Demonstration Projects, Novosibirsk, 1993-1994

Under Demonstration Project-1, the assessment of the performance by electricians was 3.35 and under Demonstration Project-2 it went up to 3.40.

Yard and entrance cleanliness was one of the old problems in housing maintenance as well. In the course of the experiment the success achieved under both Demonstration Projects was the most considerable. Positive changes could be noticed from the very beginning of the experiment.

The assessment of yard cleanliness in a year after the experiment was started came close to 4 (Figure 5.11). The results in improving the yard cleanliness under Demonstration Project-1 were more considerable. Within a year after the experiment was started the assessment of yard cleanliness under Demonstration Project-1 went up to 3.84.

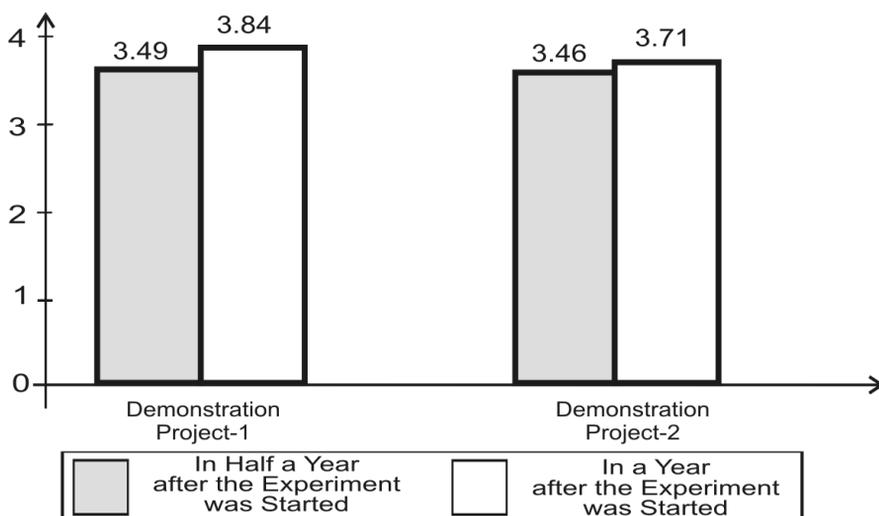


Figure 5.11. Dynamics of Assessments of Yard Cleanliness under the Demonstration Projects, Novosibirsk, 1993-1994

The entrance cleanliness (Figure 5.12) amounted to 3.85 under Demonstration Project-2 in the course of the market experiment. It was the highest value of all the aspects of

housing maintenance performance for that period. The assessment of entrance cleanliness under Demonstration Project-1 amounted to 3.61.

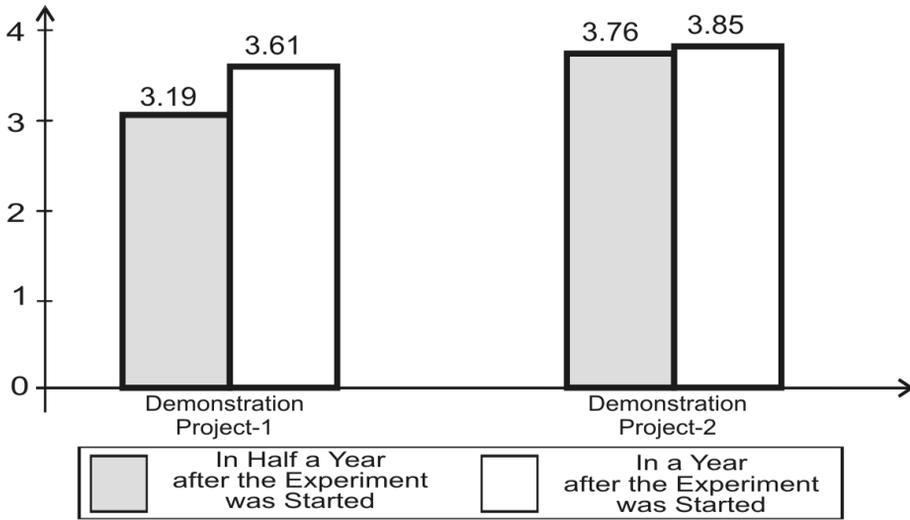


Figure 5.12. Dynamics of Assessments of Entrance Cleanliness under the Demonstration Projects, Novosibirsk, 1993-1994

A considerable growth in the assessments of yard and entrance maintenance derived from:

- a poor initial condition of these aspects of housing maintenance performance,
- the priority of these aspects in the realization of the Demonstration projects because the condition of yards and entrances was a kind of “business card” for housing maintenance organization’s performance,
- availability of clear-cut criteria of quality of work,
- the restoration of yard cleaners and entrance cleaners labor motivation connected with a considerable increase in their wage levels.

Improvement in the attitudes of the personnel towards residents was an important goal of the Demonstration projects as well. The dynamics of assessments of this aspect of their performance in the course of the experiment is presented in Figure 5.13.

Under Demonstration Project-1, positive changes in the attitudes of personnel of the management company towards residents had stable and sustainable character. The level of the assessment in half a year after the experiment was started amounted to 3.37, in a year it was 3.61. Residents pointed to changes in the behavior of the employees of the management company. Their behavior was polite and attentive even in cases when it was impossible to complete residents’ requests for reasons beyond the control of the employees.

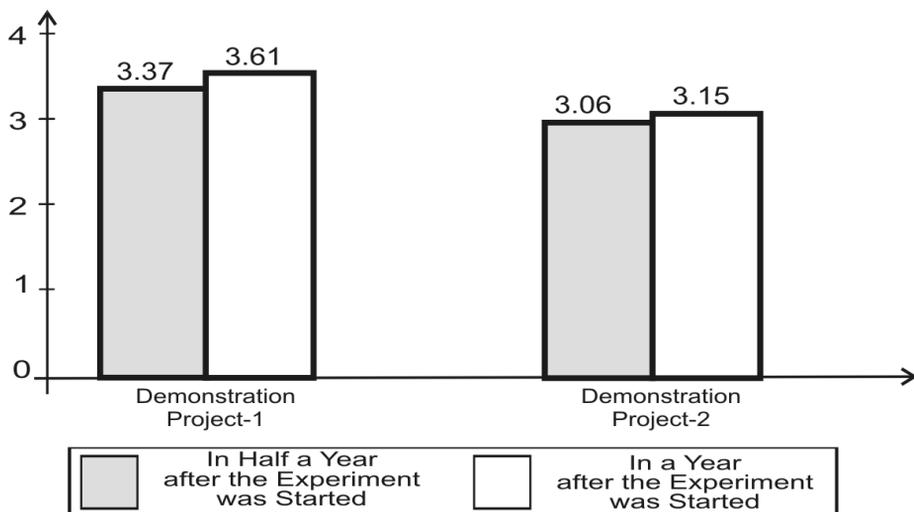


Figure 5.13. Dynamics of Assessments of Personnel' Attitudes towards Residents under the Demonstration Projects, Novosibirsk, 1993-1994

Under Demonstration Project-2, the assessment of personnel's attitude towards residents was lower. The main reason for this was the initial poor condition of the housing stock transferred to Demonstration Project-2. For this reason the personnel worked in more difficult conditions under the pressure of constant resident dissatisfaction with the existing problems.

At the second stage of monitoring, the level of resident satisfaction was measured by means of an Integral Appraisal of Satisfaction. In the course of the work of the management company under Demonstration Project-1, the number of families who assessed its work positively was constantly growing. Before the Demonstration Project was started, the number of families who assessed the results of performance by the state-administrative organizations as "poor" was high — 44 percent. Within half a year of operation of the management company the number of such families decreased to half as many and within a year — almost 5 as many and amounted to 9 percent (Figure 5.14).

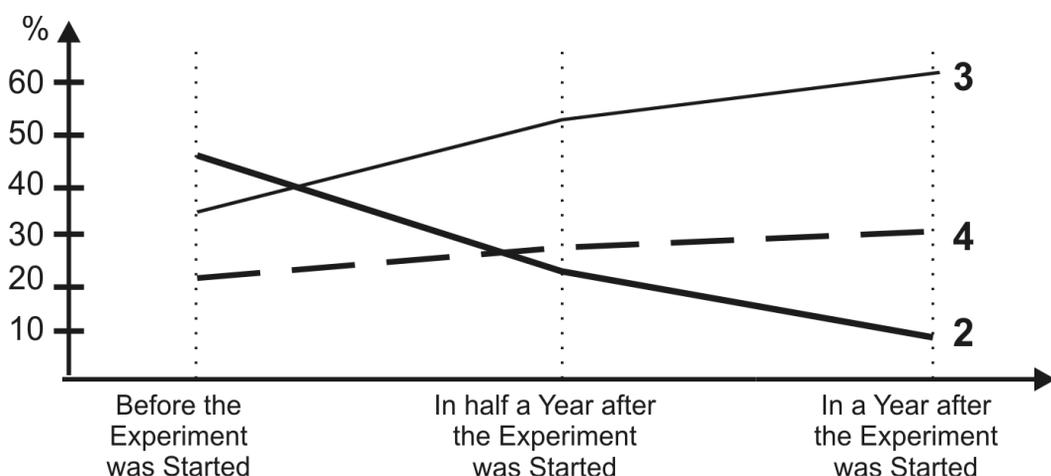


Figure 5.14. Changes in the Number of Families, whose Integral Appraisal was "2", "3", and "4", the Demonstration Project-1, Novosibirsk, 1993-1994

Results of monitoring Demonstration Project-2 attested to the growing satisfaction of the residents with the condition of housing maintenance (Figure 5.15).

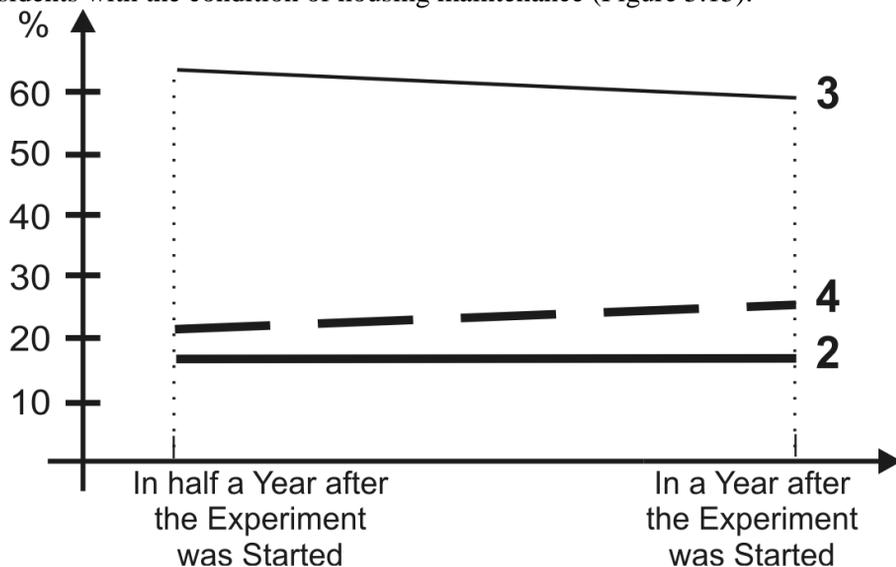


Figure 5.15. Changes in the Number of Families whose Integral Appraisal was "2", "3", and "4", the Demonstration Project-2, Novosibirsk 1994

The share of families who assessed housing maintenance as "good" grew most considerably. By the end of the first year of operation of the management company under Demonstration Project-2, the share of such families amounted to 25 percent.

A year after the experiment in city housing maintenance was started, a comparative analysis of results of operation demonstrated by the management companies and the state-administrative housing organizations represented by housing trusts was made.

Comparison between the assessments of the management company under Demonstration Project-1 and the city housing trusts showed that the assessments of the management company were higher (Table 5.9).

Table 5.9

Residents' Assessments of Trusts and the Management Company, Novosibirsk, 1994

Aspects of Housing Maintenance	City Housing Trusts	Management Company
Entrance Cleanliness	3.37	3.61
Yard Cleanliness	3.49	3.84
Performance by Plumbers	3.38	3.40
Performance by Electricians	3.43	3.44
Personnel' Attitude to Residents	3.43	3.55
Elevator Maintenance	3.35	3.35
Garbage Chute Maintenance	3.44	3.40
Average Assessment	3.41	3.51

The average assessment of operation of the state-administrative organizations in all the aspects of maintenance amounted to 3.41, while the management company under Demonstration Project-1 was assessed at 3.51. For the city housing organizations the assessments of all aspects of maintenance were very close, the difference between them being only 0.14. Under Demonstration Project-1, the difference between the assessments was larger. It attested to the difficulties of the initial stage of reforming housing and the difficulty of solving the accumulated problems concurrently.

The data of the second stage of monitoring also showed that in the course of the experiment the management companies succeeded in changing the negative tendencies in maintaining the municipal housing stock that existed in the previous period (Table 5.10).

Table 5.10

**Dynamics Indicator* in Housing Maintenance,
Novosibirsk, 1994**

Aspects of Housing Maintenance	City Housing Trusts (in the previous year)	Management Company under the Demonstration Project-2 (in the previous half a year)	Management Company under the Demonstration Project-1 (in the previous year)
Entrance Cleanliness	-0.21	+0.47	+0.57
Yard Cleanliness	-0.09	+0.13	+0.77
Performance by Plumbers	-0.20	-0.25	-0.02
Performance by Electricians	-0.18	-0.18	-0.01
Personnel' Attitude towards Residents	-0.09	-0.16	+0.21
Elevator Maintenance	-0.26	+0.15	+0.03
Garbage Chute Maintenance	-0.17		+0.03
Total Dynamics Indicator	-1.20	+0.16	+1.58

* Dynamics Indicator (D) was calculated as follows:

$$D = \frac{(\text{the share of those who said that it became better}) - (\text{the share who said that it became worse})}{(\text{the share of those who said that there were no changes})}$$

The Dynamics Indicator is positive if the share of those who pointed to an improvement is higher than the share of those who pointed to a deterioration. The Dynamics Indicator is negative if the opposite is true. If shares of those pointing to an improvement and to a decline are equal, the Dynamics Indicator equals 0. It means that by and large there have been no changes.

Data in Table 5.10 show that the assessments of all the aspects of housing maintenance for the city in general got worse, making the Total Dynamics Indicator negative. At the same time, under the Demonstration projects, the assessments of some aspects of operation were improving, making the Dynamics Indicator positive. Within half a year of

operation of Demonstration Project-2, the Dynamics Indicator was +0.16 and within a year of operation of Demonstration Project-1 it amounted to +1.58.

A comparison between the Integral Appraisal of Satisfaction of Demonstration Projects 1 and 2 and the average city level is shown in Table 5.11.

Table 5.11 shows that in the course of operation of the management companies, the share of families dissatisfied with housing maintenance, assessing the performance of housing organizations as “poor”, began to reduce. It manifested itself most clearly under Demonstration Project-1, where the management company had already been working for a year. The share of families who assessed the performance as “poor” or “satisfactory” was twice as low as in the city in general.

Table 5.11

Distribution of Families According to the Value of the Integral Appraisal of Satisfaction with Housing Maintenance, %, Novosibirsk, 1994

Intervals of Integral Appraisal of Satisfaction	Management Company under the Demonstration Project-1	Management Company under the Demonstration Project-2	City Housing Trusts
from 2 to 3	9	16	17
from 3 to 4	62	59	62
from 4 to 5	29	25	21

Management companies were faced with the necessity of solving the problems that had accumulated. Thus, they had to focus on the most neglected aspects of housing maintenance performance. In this connection, the share of families who mostly assessed the performance of the management companies by “4” and “5” marks did not considerably differ from the average city level and amounted to 25-29 percent under the Demonstration projects, compared to 21 percent for the city state-administrative housing organizations.

Monitoring of the Demonstration projects in the first year of their operation showed that from the very beginning the management companies succeeded in increasing the quality of work in all the aspects of housing maintenance. The growth was stable, although an increase in assessments of different aspects did not have a regular character. The quickest and the most sustainable result was achieved in the aspects that were least dependent on the technical condition of the buildings and utility service equipment. These were the yard and entrance cleaning and personnel’ attitudes to residents.

As for the assessments of the physical characteristics of the maintained buildings, they were received in the course of the technical inspection conducted under Demonstration Project-1 at the second stage of monitoring. Concurrently, a technical inspection of house-analogs maintained by the state-administrative housing organizations in this district of the city was conducted. The data on the technical inspection received on the basis of an expert questionnaire are grouped according to the main four aspects of performance and are presented in Table 5.12.

Table 5.12

Assessments of Physical Characteristics of Buildings under the Demonstration Project-1 and Houses-Analogs, Novosibirsk, 1994

Aspects of Physical Characteristics of Buildings	Houses Maintained by the Management Company under the Demonstration Project-1	Houses-Analogs Maintained by the State-Administrative Housing Organizations
The Main Construction Specifications of Buildings	3.20	3.35
Entrances	3.03	2.81
Cellars	2.98	3.02
Engineering Equipment	3.04	2.99
Average Assessment	3.06	3.04

The average assessments of the physical characteristics of buildings maintained by the management company and the state-administrative housing organizations were close and amounted to 3.06 and 3.04, respectively. It attests to the fact that changing the physical characteristics of buildings is an inertial process and changes could not be noticed in a year. What was the result of the operation of the management company on preserving the buildings over a one year period then?

The assessment of the physical characteristics of entrances and maintenance of the engineering equipment under the Demonstration Projects were higher. At the same time the average assessment of the condition of the main construction specifications of the buildings; its basements, walls, canopies, balconies, loggias, etc. maintained by the management company, were lower. It was connected with the poor condition of the housing stock transferred to the Demonstration projects. The assessment of the condition of the cellars in buildings under Demonstration Project-1 was somewhat lower too.

At the same time, a difference in assessments according to the aspects of the physical characteristics of buildings attested to the fact that the policy of the management companies in maintaining the buildings and their priorities differed from those of the state-administrative housing organizations. For example, the data of the first stage of monitoring showed that technical characteristics of entrances was unsatisfactory and was lagging behind most considerably among all the aspects of operation of the majority of the city HMUs. It was this aspect in which the management company achieved improvement compared to the state-administrative housing organizations during the first year of operation. Comparison of the assessments of this aspect of operation in the course of the technical inspection attested to it. When the assessment of the entrance condition for the management company was 3.03, for the house-analogs it was 2.81.

From the very beginning the management company paid special attention to the engineering equipment. The equipment of buildings under Demonstration Project-1 was the first prepared for the winter heating season in the city and was highly assessed by the inspectors of the heat supply system. It influenced a higher level of assessments for the condition of the engineering equipment under Demonstration Project-1 which amounted to 3.04 compared to 2.99 for the house-analogs.

Activities of the management company to improve the physical characteristics of the maintained housing stock in the first year of the Project operation resulted in determination of the main problems in the condition of houses and completion of the most urgent repair work.

* * *

On the eve of the market reforms in the housing sector, the housing stock was maintained by state-administrative organizations for which purpose they received budget allocations. The heads of the state-administrative organizations redistributed the allocated financial resources received between their units and controlled their performance.

The market reform in housing was realized in the form of the Demonstration projects with a contract management model. A new mechanism of operation was tested under these projects.

A comparison of the results of the operation of the management companies under the Demonstration projects with the operation of the state-administrative organizations in housing gave a unique opportunity to compare the management costs of the existing state-administrative model with the new contract management model. The management companies demonstrated that management costs in housing trusts were disproportionately high while the structure of spending the financial resources allotted to the housing maintenance organizations was rather irrational.

The Demonstration projects showed that it was possible to spend budget subsidies effectively. They proved that the state or municipal budget allocation in itself was not a cause of ineffective operation. Economic-sociological monitoring of the market experiment showed that the contract management model and the mechanism of operation corresponding to it made it possible for the organizations using a budget allocation to improve the quality of their operation and to restore effective labor motivation for all groups of employees.

Chapter 6

Modern Institutional Renewal in the Razdatok-Economy

The basics of the theory of the institutional development of the Russian razdatok-economy and the results of economic-sociological monitoring of the current period of institutional changes make it possible to explain the logic of the processes taking place in Russia. Their content is not the transition to an alternative market economy, but a renewal of the institutional environment and modernization of the basic institution of state ownership.

Consistency of institutional renewal of the razdatok-economy is presented in Chapter 6. Its features are the formation of a new contract management model and a new mechanism of budget control taking the place of the state plan together with the development of the institutional mechanism of complaints as the regulator in the razdatok-economy.

§1. Exhaustion of the Privatization Potential

The Demonstration projects in housing represented an experimental stage in the development of the market reform. As they demonstrated better results in housing maintenance, it was expected that at the next stage, management companies would be carried over to the branch organizations as a whole. For such companies to spread, the institutional environment of the society had to be transformed. Primarily, the basic institution of ownership, that is, the state property had to be replaced by private property. In so doing, it would initiate the privatization potential of the population. In housing it would mean the formation of a considerable layer of proprietors setting conditions for the development of a competitive environment in housing maintenance.

Conditions for the realization of the privatization potential of the population in housing were set by the Law “On Privatization of the Housing Stock in the Russian Federation” enacted on July 4, 1991. According to this law private owners of housing had to be created. Private owners had to be the main consumers of services rendered by private-contract housing organizations. They had to be established in compliance with the program of the market reform. In this connection at all the stages of monitoring of the market experiment in housing, the manifestation of the privatization potential in housing was analyzed.

In the course of the resident survey at *the first stage* of monitoring conducted in 1993, the level of and the intentions, with respect to the privatization of dwellings, the attitude of the population toward new types of housing maintenance organizations, the nature of requests in regard to the quality and types of housing services available, as well as the financial abilities of the population to maintain their housing without state support were determined. Concurrently, the level of dwelling privatization in different houses was measured.

At that period, in the houses under study, the level of dwelling privatization amounted to 27 percent. This data correlated with the statistical data on the level of housing privatization for this district. In addition, 8 percent of the families had already submitted documents for the privatization of their housing and 28 percent of the families were going to privatize their housing in the future, although at the moment of the survey they had not yet submitted the documents to the authorities. At the same time 37 percent of the families had no intention to privatize their housing.

The level of privatization potential is directly connected with the material level of the population. If in the course of the market reforms a considerable part of the population improves their material status, then privatization potential increases. Otherwise, privatization potential is exhausted while the etatization¹² potential recovers and begins to grow.

For this reason, in the course of monitoring, the relationship between housing privatization and the structure of the population according to the housing-property-income level was determined.

Interdependence between a family’s housing level and its privatization behavior is shown in Figure 6.1. To analyze this dependence, 5 out of the 8 housing groups described in Chapter 2 §3 were taken. Their share amounted to

93 percent. Scanty, statistically irrelevant classes of families who lived in housing poorly or badly equipped with amenities, in job-contingent housing or in housing rented from residents were not taken into consideration.

Figure 6.1 illustrates the following tendency: the better the quality of housing the family had and the larger the floorspace of the dwelling, the more active was the family’s

¹² For more details, see Chapter 2, footnote 2.

privatization behavior. The share of privatized dwellings in the top group of housing stratification amounted to 44 percent, while in the bottom group it was only 2 percent. Families from different housing groups differed according to their intention to privatize their housing in the near future. Correspondingly, the share of those who were not going to privatize their dwelling amounted to 20 percent in the top group and to 78 percent in the bottom group.

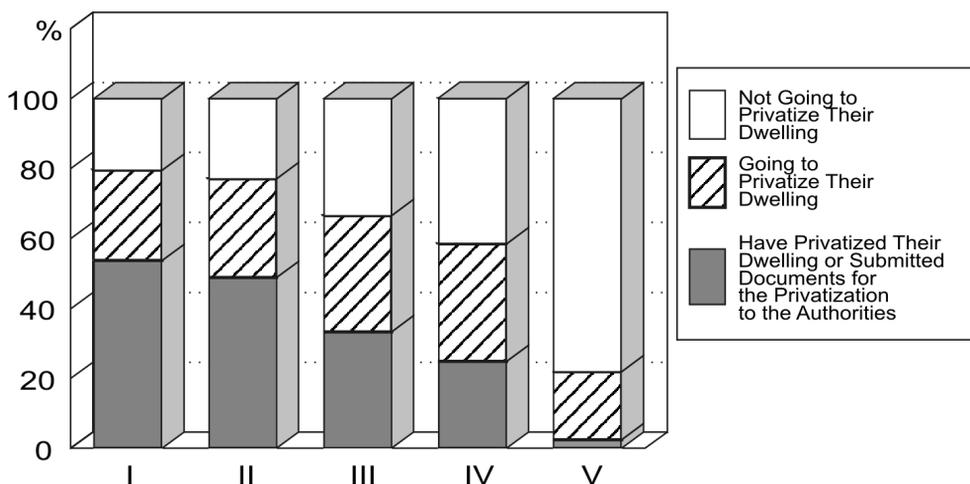


Figure 6.1. The Level of Housing Privatization in Different Housing Groups*, %, Novosibirsk, 1993

- * I - families who live in single-family dwellings well-equipped with amenities with more than 12 sq. m per family member, the number of rooms exceeds the number of residents
- II - families who live in single-family dwellings well-equipped with amenities with more than 12 sq. m per family member, the number of rooms equals the number of residents
- III - families who live in single-family dwellings well-equipped with amenities with 9 to 12 sq. m per family member
- IV - families who live in single-family dwellings well-equipped with amenities with less than 9 sq. m per family member
- V - families who live in communal dwellings well-equipped with amenities

The question, why do all the families with the best housing conditions in the city not intend to privatize their dwellings, then arises. The answer to this question was received by correlating both the level of housing privatization and the housing and property-income or material levels of families at once.

Figure 6.2. demonstrates that the level of dwelling privatization depended not only on the family's housing standard, but also on its property-income level.

In the top housing group with high material level (group 1), the level of housing privatization amounted to 83 percent, while in group 3 with a low material level it was 60 percent. At the same time, in groups with low housing standard, 76 percent of families with high material level (group 7) privatized their housing, while for families with low material level (group 9) the figure amounted to only 40 percent.

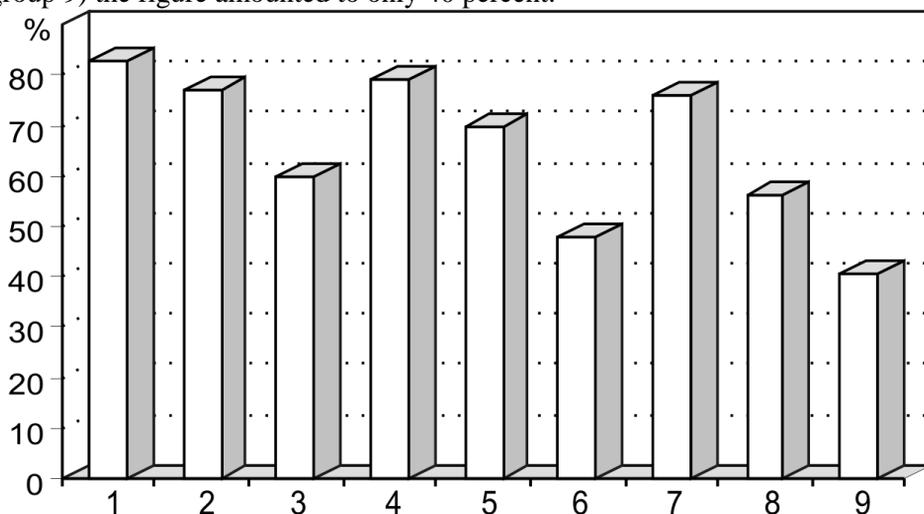


Figure 6.2. The Level of Housing Privatization in Different Housing-Property-Income Groups*, %, Novosibirsk, 1993

- * 1 - high housing standards, high property-income level
- 2 - high housing standards, average material level
- 3 - high housing standards, low property-income level
- 4 - average housing standards, high property-income level
- 5 - average housing standards, average property-income level
- 6 - average housing standards, low property-income level
- 7 - low housing standards, high property-income level
- 8 - low housing standards, average property-income level
- 9 - low housing standards, low property-income level

Also the property-income level of the population turned out to be the determining factor for the formation of the resident attitudes toward new types of housing organizations to be introduced in the course of the market reform.

During the survey, residents were asked about their attitude towards the proposed Demonstration projects, and whether they supported the idea of transferring responsibility for management services to private companies in the city as a whole. The use of the two related questions was designed to gain reliable information on a development that was innovative in the Russian context.

Analysis of the answers showed that in different housing-material groups the gap between those being in favor of the experiment was from 47 to 78 percent (Figure 6.3).

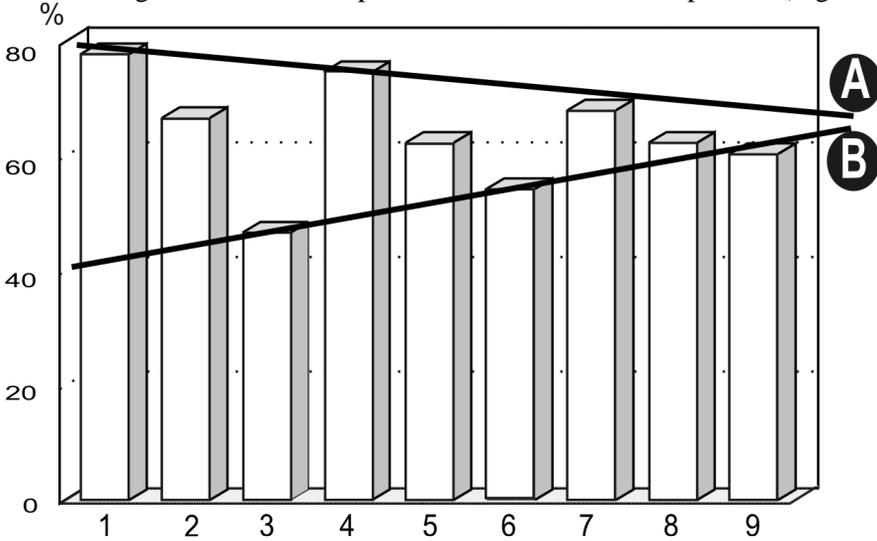


Figure 6.3. A Share of Supporters of the Market Experiment in Different Housing-Property-Income Groups*, %, Novosibirsk, 1993

- * 1 - high housing standards, high property-income level
- 2 - high housing standards, average material level
- 3 - high housing standards, low property-income level
- 4 - average housing standards, high property-income level
- 5 - average housing standards, average property-income level
- 6 - average housing standards, low property-income level
- 7 - low housing standards, high property-income level
- 8 - low housing standards, average property-income level
- 9 - low housing standards, low property-income level

It was clearly demonstrated that with all other conditions being equal, the material level had a positive effect on the attitude toward the experiment in housing maintenance. It was in the group with the best material level that the share of supporters of the experiment was the highest, from 68 to 78 percent` (straight line A).

At the same time the family's high housing standard combined with property-income level had the opposite effect in the interest to the reforms. The better the family's housing standards, the less the number of those who supported the participation of private companies in maintaining the housing stock. For example, among the families with high housing standards and low material level the share of those who supported the market reforms was 47 percent and among the families with low housing standards it amounted to 61 percent (straight line B).

Tendencies represented by straight lines A and B reflect the stereotypes of mass-consciousness of that period, i.e., that the private services rendered by non-state organizations were more expensive. Many respondents pointed to that directly: a twentieth part of those surveyed clearly expressed their apprehension

about a rise in prices derived from the operation of private companies. Some people said that they would support the market experiment if no rise in the cost of services occurred. For this reason, wealthier families in general had a more positive attitude toward the experiment. Among the families with low income level, those who had better housing standards and were not sure of their ability to maintain their housing on their own were most afraid of the experiment. For this reason, among the families with low material level and high housing standards, the percentage of those who supported the experiment was the lowest (47%).

Also, at the first stage of monitoring, the nature of resident requests in the sphere of housing maintenance was determined. The residents were asked to enumerate services they thought were necessary. Analysis of answers helped to distinguish three potential segments of housing maintenance services on the eve of the experiment (Figure 6.4).

Segment A represented the desires of the most affluent group with the best housing standards. In keeping with the quantity of this group in April 1993, segment A amounted approximately to 4 percent of the total volume of the required housing services. On the whole, the set of services these residents suggested could be described as a package for maintaining high living standards. These typically included remodeling the dwelling, mounting grilles on the windows, burglar alarms, security guards, and even domestic help.

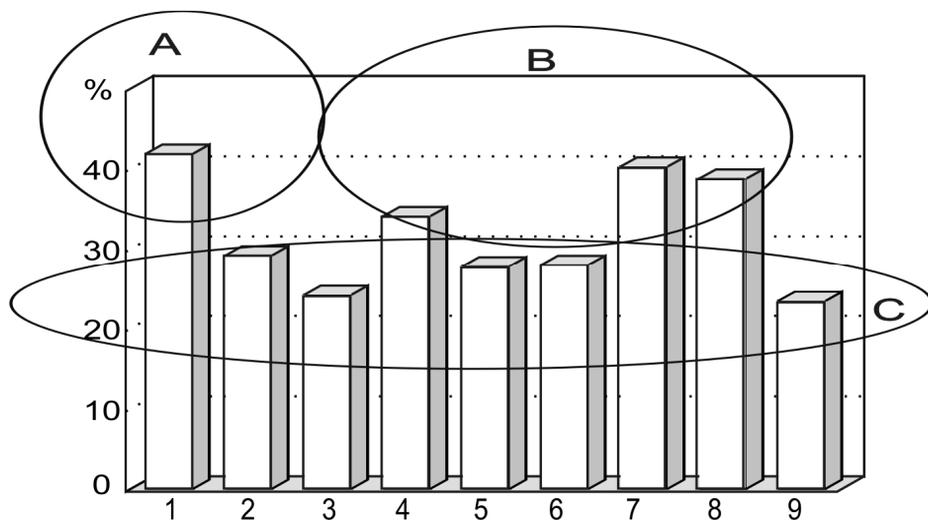


Figure 6.4. A Share of Those Who Needed Additional Services in Different Housing-Property-Income Groups*, Novosibirsk, 1993

- * 1 - high housing standards, high property-income level
- 2 - high housing standards, average material level
- 3 - high housing standards, low property-income level
- 4 - average housing standards, high property-income level
- 5 - average housing standards, average property-income level
- 6 - average housing standards, low property-income level
- 7 - low housing standards, high property-income level
- 8 - low housing standards, average property-income level
- 9 - low housing standards, low property-income level

Segment **B** represented the desires of sufficiently well-to-do groups with average or lower housing conditions. High family incomes combined with housing conditions that they generally regarded as unsatisfactory generated the demand for services that would improve the quality of their housing. These typically included additional repairs and decoration of the dwelling, installation of new plumbing equipment, double doors, and build-in closets. Segment **B** amounted to 24 percent.

Segment **C** comprised the desires of the other groups with an insufficient material level. At the same time the housing standards of families from these groups were different. They demanded standard services. These included HMU deferred maintenance, such as replacing worn-out plumbing equipment, capital repairs in the building and dwellings, and roofing work. This category also included a high proportion of maintenance jobs in the dwelling: replacing a rusty pipe, changing electrical sockets, etc. The share of segment **C** was the largest and amounted to 72 percent.

It was assumed that in the course of market reforms the housing fee collected from residents would gradually increase to such a level that it would cover maintenance expenses of the housing maintenance organizations. For families with low income level these expenses could be considerable, thus it was assumed that such families would receive a subsidy (compensation) from the government. For this reason, at the first stage of monitoring, families were asked whether they were able to maintain their dwelling themselves in case the housing fee grew considerably, or whether they needed a special subsidy from the government. Of all the families surveyed, 11 percent answered that they would probably need a subsidy, while 50 percent said that they would certainly need it. Thus only a tenth of the population was ready to maintain their housing themselves under conditions of growing housing fee.

In groups with a different material level the demand for support from the government to maintain their housing was different (Figure 6.5).

As expected, the higher the family's material level, the less it needed support from the government. In groups 3, 6 and 9 with low material level, from 71 to 73 percent of families pointed to the necessity to receive a housing subsidy from the government, while in groups 1, 4 and 7 with high material level only from 13 to 21 percent needed a housing subsidy from the government.

At the first stage of monitoring, an analysis of the privatization behavior of the population, its attitude toward the establishment of private organizations in housing maintenance, the nature of demands for housing services, and financial ability to maintain their housing on their own was made. It helped to determine the relationship between privatization and etatization potentials of the population in housing on the eve of the market reform.

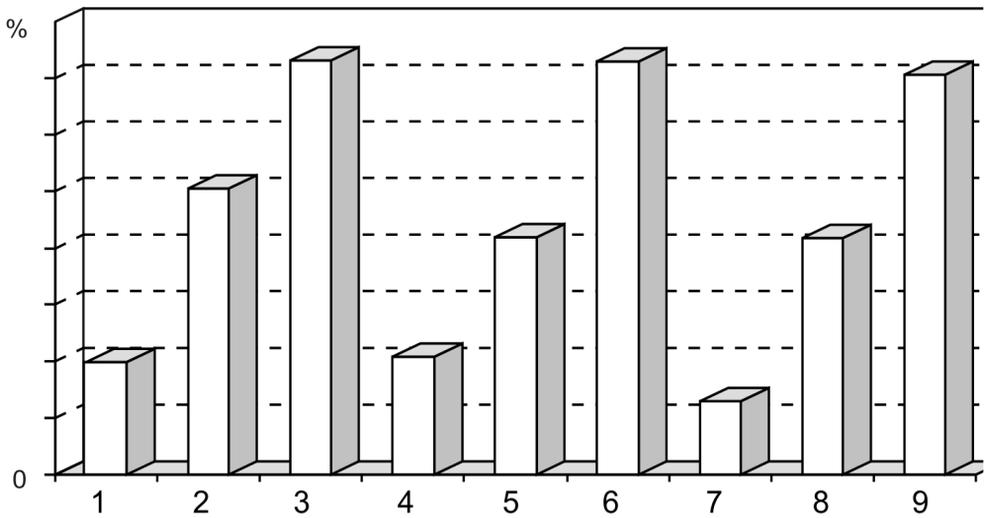


Figure 6.5. A Share of Families Who Needed Support from the Government to Maintain Their Housing in Different Housing-Property-Income Groups*, % Novosibirsk, 1993

- * 1 - high housing standards, high property-income level
- 2 - high housing standards, average material level
- 3 - high housing standards, low property-income level
- 4 - average housing standards, high property-income level
- 5 - average housing standards, average property-income level
- 6 - average housing standards, low property-income level
- 7 - low housing standards, high property-income level
- 8 - low housing standards, average property-income level
- 9 - low housing standards, low property-income level

The majority of families, approximately 70 percent, had low housing privatization activity and were oriented towards the support of the government in housing maintenance. Concurrently, the demand for services by these families was within the normative set traditionally rendered by the state housing organizations. This group made up the value of the etatization potential of the population on the eve of the reform because it was interested in preserving a predominant influence of the state in their economic life. Under reforms, this group of population wanted a transformation within the state housing system and the necessity to raise the state standards to the level of current needs.

Another group of families amounted to 30 percent in 1993. It preferred active development of the market relationships in housing. These families were ready to maintain their housing themselves. They also supported the development of the market where paid services were rendered and actively privatized their dwellings. This group of families determined the value of privatization potential of the population on the eve of the market reforms.

Conceptually, establishment of condominiums on the basis of privatized dwellings had to become the next stage in the realization of the privatization potential of the population in housing and the emergence of a class of private

owners. Municipal housing with a growing number of privatized dwellings had to be the basis for the establishment of condominiums.

At the first stage of monitoring, a total survey of residents who lived in the territory of the experimental unit made it possible to determine the level of dwelling privatization in each house in particular (Figure 6.6).

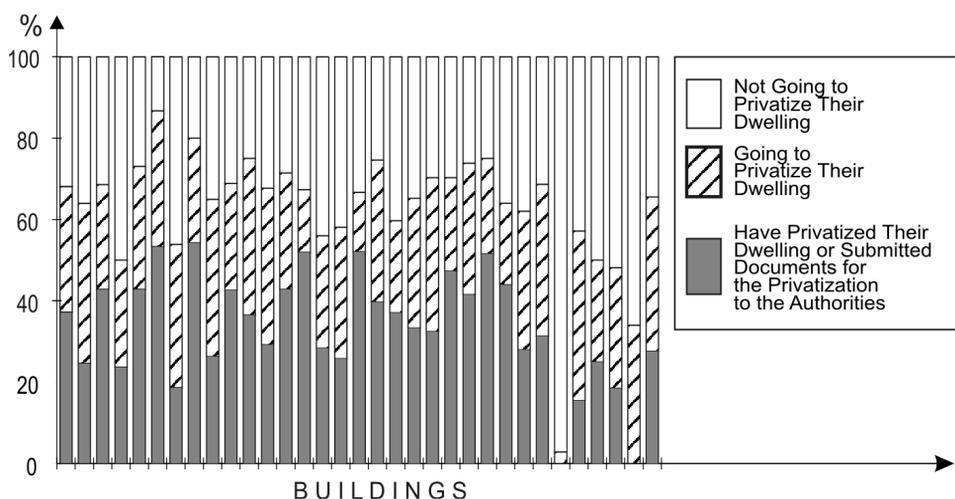


Figure 6.6. The Level of Dwelling Privatization in Houses at the First Experimental Unit, %, Novosibirsk, 1993

The difference in the share of privatized dwellings from house to house was from 0 to 42 percent. The distribution of different housing-property-income groups of families in houses turned out to be heterogeneous. Only in one of the buildings, a 3-story house of good quality built in 1954 where the capital repairs was made and only 29 families lived, did the majority have a high property-income level. In two houses built in the 1930s where capital repairs had not been made, 91 and 78 percent of all the residents respectively, were families with a low income level. In another 30 houses under survey, all groups of housing-property-income stratification were represented to a greater or lesser extent. In other words, approximately 1 percent of families had high property-income level, high housing standards and lived in houses of good quality; 4 percent were the poorest families living in houses of the worst quality, while the majority (95%) were families with different property-income level living in houses of different quality.

At the first stage of monitoring, a forecast of the dwelling privatization level was made on the basis of interdependence between the housing-property-income and housing privatization levels and the consistency of settling in houses of the municipal housing stock. It lay in the fact that a share of heterogeneous types of houses with the predominance of either privatized or not privatized dwellings would be very low. Generally, in municipal houses, both the owners of privatized and residents of non-privatized dwellings would be represented. Thus, a broad distribution of condominiums in the course of the market reform was highly improbable.

The goal of *the second stage* of monitoring was to study the dynamics of the privatization potential of the population on the basis of processes in housing privatization. Concurrently, it was assessed how well-informed the population was regarding condominiums, as it was at that time, namely on

December 23, 1993, that the President passed a resolution on “Temporary Provisions on Condominiums”.

Tendencies in the privatization behavior of the population detected at the first stage of monitoring were preserved at this later period in time. For example, according to the data of the representative survey of municipal housing in Novosibirsk in April 1994, families from the top groups of housing stratification remained more active in privatizing their dwellings (Figure 6.7).

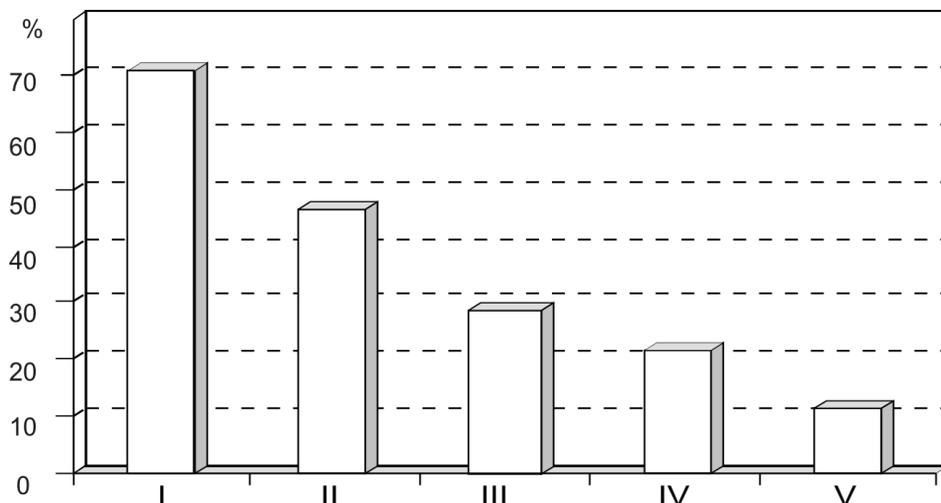


Figure 6.7. The Level of Housing Privatization in Different Housing Classes*, %, Novosibirsk, 1994

- * I - families who live in single-family dwellings well-equipped with amenities with more than 12 sq. m per family member, the number of rooms exceeds the number of residents
- II - families who live in single-family dwellings well-equipped with amenities with more than 12 sq. m per family member, the number of rooms equals the number of residents
- III - families who live in single-family dwellings well-equipped with amenities with 9 to 12 sq. m per family member
- IV - families who live in single-family dwellings well-equipped with amenities with less than 9 sq. m per family member
- V - families who live in communal dwellings well-equipped with amenities

Among the families from the top groups of housing stratification, 71 percent have privatized their dwellings, while in the bottom group, the share of privatized dwellings amounted to 12 percent. Thus at that period the general level of privatization amounted to 34 percent of the municipal housing stock.

The population was rather badly informed about the existence of condominiums. For example, in October 1994, almost a year after the resolution on condominiums had been passed, only 10 percent of the surveyed families gave a positive answer when asked: “Have you heard about the establishment of condominiums in the city?”

At *the third stage* of monitoring, the attention was focused on analyzing the degree to which condominiums were spread, because at that period the level

of dwelling privatization was falling everywhere. The peak of housing privatization in Russia fell in the first quarter of 1993 and was primarily observed at the first stage of monitoring.

The general level of privatization of municipal housing in May 1995 amounted to 38 percent. As before, the least active privatization behavior was characteristic of families with the worst housing conditions (Figure 6.8).

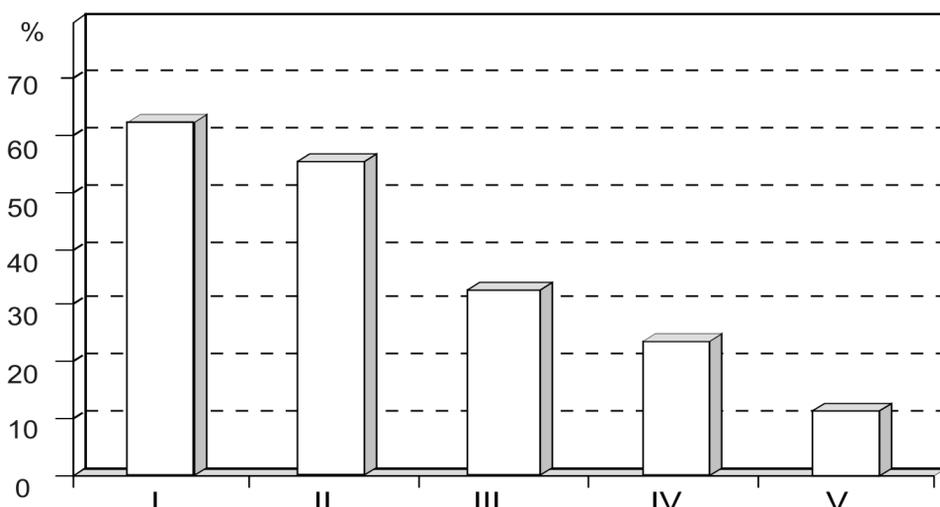


Figure 6.8. The Level of Housing Privatization in Different Housing Classes*, %, Novosibirsk, 1995

- * I - families who live in single-family dwellings well-equipped with amenities with more than 12 sq. m per family member, the number of rooms exceeds the number of residents
- II - families who live in single-family dwellings well-equipped with amenities with more than 12 sq. m per family member, the number of rooms equals the number of residents
- III - families who live in single-family dwellings well-equipped with amenities with 9 to 12 sq. m per family member
- IV - families who live in single-family dwellings well-equipped with amenities with less than 9 sq. m family member
- V - families who live in communal dwellings well-equipped with amenities

In the bottom housing group the level of housing privatization was almost 6 times lower than in the top group of housing stratification.

Also at that period, differences in the level of privatization of municipal housing were preserved. According to the data of a statistical survey of 87 houses in the Leninski district of Novosibirsk in May 1995, the level of dwelling privatization in them differed considerably (Table 6.1).

Table 6.1

The Structure of Houses According to the Level of Dwelling Privatization, Novosibirsk, 1995

A Share of Privatized Dwellings in a House, (percent)	Houses	
	percent	Number of Houses
- up to 10	5	4
- from 10 to 20	5	4
- from 20 to 30	18	16
- from 30 to 40	17	15
- from 40 to 50	32	28
- from 50 to 60	16	14
- from 60 to 70	7	6
- from 70 and more	0	0
Total	100	87

At that period of time, in the majority of houses (77%), less than half of the dwellings were privatized. This proved that the settling of related housing-property-income groups together in a common region or house influenced the heterogeneity of the privatization of dwellings that had been revealed at the first stage of monitoring.

In May 1995, at the third stage of monitoring, additional data on the amount of information about the project and attitudes towards condominiums were collected. In comparison to the previous period, the population was informed two times better about condominiums, the total figure not going up higher than 20 percent.

In this connection, an indefinite (indifferent) attitude to the establishment of condominiums prevailed. The following question was asked in the course of the survey: "What would your attitude be to the establishment of a condominium in your house?" Of all those surveyed, 20 percent answered that they would be against, 18 percent said that they would support this decision, 9 percent answered that it made them no difference, while 53 percent said that they did not know.

It was expected that in the course of the market reform dwelling privatization in houses would help the establishment of condominiums, as the owners of privatized dwellings would be interested in uniting and maintaining their property. As the results of monitoring showed, residents' attitudes to condominiums did not depend on whether they privatized their dwelling or not (Table 6.2).

Table 6.2

Relationship between Dwelling Privatization and Residents' Attitude toward Condominium, Novosibirsk, 1995, %

Dwelling Privatization	Attitude toward Condominium				Total
	Will Be Against	Will Support	It Makes Me no Difference	I Don't Know	
Not Privatized	20	18	10	52	100
Privatized	20	18	7	55	100

The data of Table 6.2 show that whether a dwelling was privatized or not did not influence the attitude of the surveyed residents toward the establishment of a condominium in their house.

According to the data of April 1996, no condominiums were established in Novosibirsk on the basis of municipal housing. Two condominiums that existed in the city were established by the residents of newly built houses who paid for the construction of their housing.

Thus the monitoring of institutional changes in housing showed that housing privatization did not lead to the formation of private owners of housing. The owners of privatized dwellings did not establish condominiums on a mass scale although the rules of their maintenance in the market environment were formulated. On the eve of the market reform the rights of individual owners of privatized dwellings in the sphere of housing maintenance did not differ from those of municipal housing residents.

Exhaustion of the privatization potential of the population manifested itself in the limited number of privatized dwellings. It became the first regularity of institutional transformation in the razdatok-economy. Although the legislation to help reveal and develop the privatization potential of the population in housing was created, a large enough layer of private owners of housing stock who could become the customers of private-contract housing organizations had not been formed in Russia by 1996.

§2. Metamorphosis of the Private Forms

The Demonstration projects in Novosibirsk, with the transfer of municipal housing maintenance to the private management companies, became a proving ground for working through the market mechanisms in order to transform the razdatok-economy of Russia. These projects were realized in an artificially created environment where the behavior of the main participants of the experiment and observance by them of their roles were specially controlled.

In the summer of 1994 the results of the first year of running the Demonstration projects were discussed at a meeting of the Working Group. It was created by the Mayor's decision to control the observance of experimental conditions under the Demonstration projects and to analyze the results of their operation. It was noted that the management companies coped well with activities in the housing maintenance sphere. In this connection it was decided to continue their operation without special control and supervision by the city power bodies. Thus the Demonstration projects no longer represented an artificial element of the city housing maintenance system but began to develop in a natural environment.

Under the existing conditions, the management companies of the Demonstration projects began to transform themselves into organizations of a private-administrative type. The nature of these organizations and the character of institutional changes in housing were studied at the third stage of monitoring conducted from November 1994 to April 1996.

The emergence of private-administrative organizations was a characteristic feature of the initial period of the market transformation in the razdatok-economy in Russia. Private-administrative organizations were a metamorphosis of the private forms typical of the institutional market

environment with the dominance of private ownership. In Russia, though, organizations of this type were private only on the surface as they began to reproduce the features of the administrative management model.

On the eve of the market reforms, state-administrative organizations being the basic type of managing organizations, entered a crisis period. Mass privatization and joint stocking of enterprises began under these conditions. It actually meant a free transfer of possession and management of the state property to new private forms. In other words, parts of state property were isolated and transferred to the possession and management of privatized enterprises, joint stock companies, and partnerships established with the active participation of the former top management level of the state enterprises. But, even though these enterprises were private in form, they continued to perform functions important to the society as a whole including production of vitally important goods and services, providing work places, maintaining the elements of public infrastructure, etc., and the state continued to support their operation to a greater or lesser extent. This support had the form of budget financing, setting privileged tariffs, actual free use of land, etc. In doing so, the institutional environment that existed for the state-administrative organizations was preserved to a considerable extent. At the same time, in spite of the new management forms for the enterprises such as a shareholders' meeting, the administrative management model was preserved as either the main share of privatized property or the management of the state portfolio of shares was assigned to the former leaders. For this reason, newly emergent types of organizations which reregistered their former administrative-management structure privately, represented a new, formerly non-existent type of private-administrative organization.

At the initial stage of the market transformation it was not supposed that the state would interfere with the activities of private-administrative organizations as was commonly practiced in the state-administrative organizations. An attempt was made to apply market methods in regulating the operation of the private-administrative organizations, predominantly through the taxation system. At the same time, private-administrative organizations were independent to decide on the number of people to be employed with no regard to the normative staff roster levels, their wage levels, their customers, the amount and the quality of their materials and equipment, etc.

Unlike other branches of the razdatok-economy, privatization in housing maintenance was not yet conducted. Nevertheless, attempts were made to establish private-administrative organizations in housing as well. In 1994 in one of the districts of the city, administration of a former housing trust reorganized one of the HMUs into a Limited Partnership (LP), where it became one of the main founders with a share of 51 percent of the capital stock. The LP was an independent legal entity, had its own bank account and worked under a contract.

At the same time, in the name of the Limited Partnership the HMu's name with its former number were preserved. This pointed to its structural affiliation with the former administrative management system. The contract was signed, not with the owner of the housing stock, the district administration, but with the top management level — the Housing Board (HB), a former housing trust. No provision was made in the contract for the transfer of the functions of managing the housing stock to the Limited Partnership. This contract represented a contract for "the maintenance of the housing stock". Although the

contract was signed, the relationships of direct subordination between the Housing Board and the Limited Partnership were preserved. Under the contract, provision was made for the withdrawal of a part of the wage fund of the LP personnel to the advantage of the HB through the preservation of the system of bonus payments to the LP personnel.

The Demonstration projects began to transform in a similar way when the experimental stage of their operation was over and they started operating in the real economic situation. Since summer 1994, horizontal relations between the management companies and the owner of the housing stock began to acquire features of vertical relations typical of the administrative management model. Thus the Demonstration projects became a ground for the operation of private-administrative types of organizations in housing maintenance. The owner of the housing stock in the form of the Housing Communal Committee (HCC), formerly being the top management level of the city housing maintenance system, again began to perform the functions of the top management level, with the former management companies becoming the bottom-level units subordinated to it.

The peculiarities of the external institutional environment typical of the housing economy as a whole contributed to the transformation of the Demonstration projects into private-administrative types of organizations.

First, the functions of owning and managing the housing stock were merged under the Demonstration projects. The reason for that was that a part of the municipal housing stock maintained under the Demonstration Projects belonged to the HCC which, at the same time, was the top level of the administrative management structure responsible for the maintenance of the municipal housing stock in the city. Thus the functions of a customer of the housing maintenance services, allotting the state resources for maintenance purposes, and those of a contractor, using these resources, were once again combined in one organization.

Second, the Demonstration projects like the municipal housing economy in general, were financed through the municipal budget. Thus, in spite of the private form of the management companies, the Demonstration projects operated using the financial resources of the state.

Third, although the management companies under the Demonstration projects were financially independent, their income and expense budgets were not separated from the budget of the HCC. Thus they did not receive the full amount of expenses for managing housing maintenance.

Under such conditions, since 1994, relationships between the owner of the housing stock and the managers of all the Demonstration projects began to reproduce those typical of the top and bottom levels under the administrative management model. Planning meetings where the managers received instructions on the order of their work and tasks they had to perform were held weekly. The managers were no longer responsible for the provision of materials and equipment bought on the market. They received them from the HCC according to their submitted requests. Money spent on specific needs required special coordination each time as well.

The conditions of work and the nature of the private-administrative organizations revealed under the Demonstration projects at the third stage of monitoring contributed to the reconstruction of the bureaucratic financial mechanism of the administrative management model.

This mechanism manifested itself in the following situations. First, redistribution of financial resources from the bottom level units, into which the management companies were transformed, to the top management level began. The HCC periodically did not allot the management companies the full amount of the resources specified in the contract for maintaining the housing stock, leaving up to 30 percent of the finances at its own disposal. Thus a tendency toward the growth of management costs and a decrease in maintenance expenses typical of the state-administrative organizations on the eve of the reform became apparent.

Second, HCC began to redistribute the resources from the maintenance to the construction of garages, workshops, warehouses, etc. and the purchase of multipurpose machinery and equipment. Thus latent redistribution of allocated state financial resources for the purposes not specified in the plan of expenses took place.

Third, the management companies began to lose their independence in implementing the housing maintenance policy within the set standards as the HCC was redistributing the financial resources between the Demonstration projects on its own accord. Thus the former financial mechanism, where the financial resources allocated for the maintenance of one unit could be redistributed to the advantage of other units depending on the preferences of the higher management bodies was reproduced. For example, during the first quarter of 1995, expenses on maintaining 1 square meter of total floorspace in HMU-1 of the HCC (the former Demonstration Project-1) amounted to 955 rubles in comparison to 500 rubles in the city on the average. At the same time other Demonstration projects did not receive full financing from the HCC compared to the average city level.

Fourth, in the course of the realization of the Demonstration projects, the actual number of employees was less than the staff roster level, according to which the amount of money on maintaining the housing stock was determined. At the same time the normative wage fund was no longer fully distributed between all the employed, part of the fund was allocated to the top management level. Such redistribution of financial resources again created conditions for the lowering of the labor motivation of those who worked in the management companies.

So, the results of the third stage of monitoring the reform in housing showed that the introduction of the market forms of operation in conditions of reforming the *razdatok*-economy, resulted in the establishment of private-administrative organizations which failed to block the devastating operation of the bureaucratic financial mechanism. Further still, merging of the private form with the former administrative management model aggravated the defects of the administrative management. Similar symptoms were revealed in other branches of the economy at that time as well.

For example, in privatized state enterprises, wage differentiation between ordinary workers and top management personnel grew even worse. While before the reform the employees of the bottom level units were underpaid, in the course of the market reform, it became a common practice not to pay wages to the employees for months. At the same time, the managers of the new joint stock companies regularly received a high level of income, although there was no market for the production of their enterprises and the amount of production was constantly decreasing.

By 1996, it became clear that the market reform did not result in reducing the share of management costs in production expenses in general, or in the growth of labor motivation of

ordinary workers and did not make it possible to overcome the crisis. It resulted from the preservation of the operation of the former bureaucratic financial mechanism of the administrative management model which was even strengthened in new organizations of the private-administrative type.

The low effectiveness of the private-administrative organizations was illustrated by the data of the third stage of monitoring of the institutional changes in housing. So, the degeneration of the management companies into organizations of a private-administrative type became an obstacle to the improvement of the quality of housing maintenance achieved under the experimental conditions of the Demonstration projects.

Analysis of the dynamics of the level of resident satisfaction in Demonstration Project-1 showed that during the year of operation of the management company under the experimental conditions, from April 1993 to April 1994, the share of resident dissatisfaction declined from 44 to 9 percent, or 4.8 times (Table 6.3). The majority of formerly dissatisfied residents gave higher assessments and joined the group of those who on the average assessed the quality of services as being satisfactory. Their share increased 1.8 times and amounted to 62 percent against 35 percent. The share of satisfied residents, with the assessments from 4 to 5, increased 1.4 times.

The degeneration of Demonstration Project-1 into a private-administrative type of organization resulted in a sharp deceleration of the speed of positive changes. The share of dissatisfied residents during the year did not become less, while the share of families with satisfaction assessments from 3 to 4 increased only 1.1 times and from 4 to 5 — 1.3 times. Similar tendencies were detected in Demonstration Project-2.

Table 6.3

Dynamics of Assessments of Satisfaction in Demonstration Project-1, Novosibirsk, 1993-1995, %

The Interval of the Assessment	Before the Experiment	Management Company		Private-Administrative Organization
	April 1993	October 1993	April 1994	May 1995
from 2 to 3	44	21	9	9
from 3 to 4	35	55	62	54
from 4 to 5	21	24	29	37
Total	100	100	100	100

Resident satisfaction assessments of the private-administrative organizations under Demonstration Projects 1 and 2 were compared to the assessments of the state-administrative organizations in city housing in the process of reformation¹³ (Table 6.4).

¹³ The essence of the reformation of the city housing maintenance system is described in detail in the next section.

Table 6.4

Comparison between the Assessments of Satisfaction of Private-Administrative and State-Administrative Organizations Undergoing Reformation, Novosibirsk, 1995

The Interval of the Assessment	State-Administrative Organizations Undergoing Reformation			Private-Administrative Organization		
	Leninski HB: HMU-26	Pervomaiski HB: HMUs 74 and 75	Average	Demonstration Project-1	Demonstration Project-2	Average
from 2 to 3	10	10	10	9	12	10.5
from 3 to 4	49	51	50	54	53	53.5
from 4 to 5	41	39	40	37	35	36.0

Although the private forms with the administrative management model began their operation against the background of a higher level of resident satisfaction achieved in the course of the market experiment, in May 1995 they began to lose to the state organizations undergoing reformation. The data of Table 6.4 show that the level of resident satisfaction under the Demonstration projects became lower than that in state organizations undergoing reformation. Thus, the combination of the private form with the administrative management model resulted in lowering of the resident satisfaction assessments.

Comparison between the average assessments of the level of housing maintenance under the Demonstration projects at all three stages of monitoring attested to the fact that the growth in the level of housing maintenance in the course of regeneration of the management companies into the private-administrative type of organizations slowed down (Table 6.5).

Under Demonstration Project-1 the average assessment of all specific aspects of housing maintenance during the first year in operation increased from 2.8 to 3.5, or 1.25 times. During the next year the growth of the assessment came to a halt. Under Demonstration Project-2 the average assessment in April 1994 was 3.3, in October 1994 — 3.4, and in May 1995 — 3.6.

Figure 6.9 shows the dynamics in the yearly rates of growth of the average assessment of housing maintenance under both Demonstration projects.

Table 6.5

Assessments of the Level of Housing Maintenance under the Demonstration Projects 1 and 2 (DP-1 and DP-2), Novosibirsk, 1993-1995

	Before the Experiment		Management Companies				Private-Administrative Organizations						
	April 1993		October 1993		April 1994		October 1994		May 1995				
	DP-1		DP-1		DP-1	DP-2	DP-1	DP-2	DP-1	DP-2			
Cleanliness of Entries	-		3.2		3.6		3.5		3.7		3.5		3.8
Yard Cleanliness	-		3.5		3.8		3.8		3.9		4.0		4.0
Plumbers' Performance	-		3.1		3.4		3.0		3.2		3.5		3.3
Electricians' Performance	-		3.2		3.4		3.2		3.2		3.5		3.4
HMU Staff Attitudes to Residents	-		3.4		3.5		3.1		3.2		3.5		3.1
Elevator Maintenance	-		3.3		3.4		3.7		3.4		3.3		3.7
Garbage Chute Maintenance	-		3.2		3.4		--		3.4		3.2		--
Average	2.8		3.3		3.5		3.3		3.4		3.5		3.6

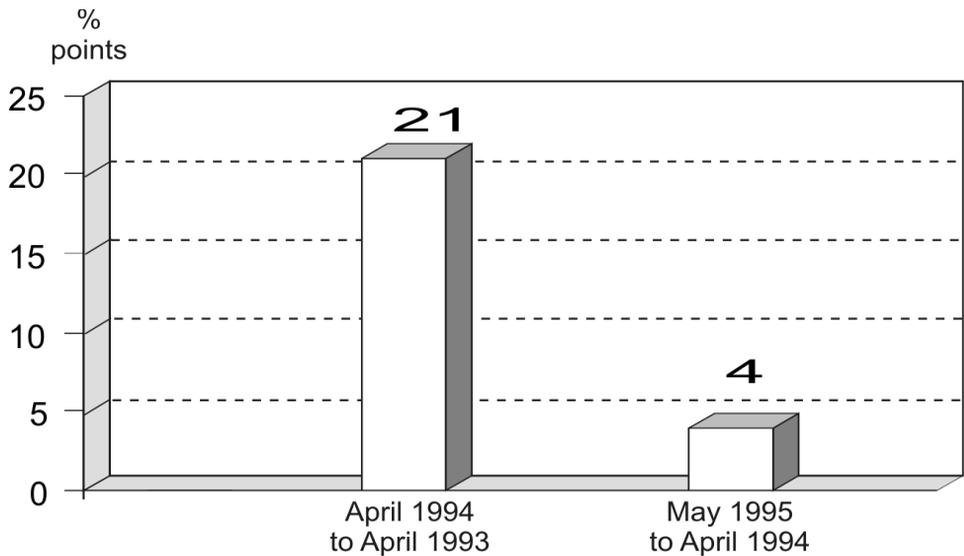


Figure 6.9. Dynamics of the Yearly Rate of Growth of the Average Assessment of Housing Maintenance under the Demonstration Projects, Novosibirsk, 1993- 1995

The data on both Demonstration projects clearly demonstrate a sharp decrease in the rates of growth of the average assessment of the level of housing maintenance in the course of the degeneration of the management companies into organizations of the private-administrative type.

The low effectiveness of housing organizations under the Demonstration projects in the period from 1994 to 1995 was connected with the reproduction of the administrative management model with the defects typical of it.

Thus, contrary to the idea of reform, the main types of enterprises from 1993 to 1995 were not organizations typical of a market economy, but specific organizations of the private-administrative type. The reason for the metamorphosis of the private forms under conditions of reformation of the razdatok-economy was the preservation of the nature of the institutional environment where the institution of private ownership did not develop. In turn, the reason for that was the exhaustion of the privatization potential of the population in the course of the market reform. Its main factor was the communal character of the material-technological environment which became even stronger in the course of the reform.

Exhaustion of the privatization potential and the recognition of the ineffectiveness of private-administrative organizations as they represented only a metamorphosis of the private forms signified that the first period of reforming the razdatok-economy was completed. The essence of this period was an attempt to introduce alternative economic institutions and to increase public recognition of the expediency of developing in this direction.

§3. Modernization of the Institution of State Ownership

Since the mid-1990s the center of mass in reforming the razdatok-economy has been shifting more and more from the introduction of the market institutions to the modernization of the institution of state ownership. In housing, this process began with the reform of the system of possessing and financing state housing. The housing stock of the local Soviets on the territories of cities was declared to be municipal property.

Correspondingly, this stock began to be financed through municipal budgets. Municipalities received the right to independently determine the amount of financing, the order of allocating the financial resources, housing fee and lease levels, and other payments according to the regulations set at the federal level.

The right to possession housing stock transferred to the municipal level resulted in the necessity to reorganize the housing maintenance management system. Instead of the national structure, municipal management structures had to be established.

In 1991 in the city of Novosibirsk the top administrative management level of housing maintenance represented by the Industrial Housing Repair Board (IHRB) was liquidated, while the district Industrial Housing Repair Trusts (IHRT) gained financial and material independence. Each of them maintained from 0.08 to 1.2 million square meters of floorspace of the municipal housing stock.

In 1992, on the basis of the liquidated IHRB the Housing Communal Committee (HCC) was restored by the Mayor's Office. It was authorized to coordinate the situation in the branch, preparing proposals on the amount of financing for the district trusts, controlling the fulfillment of the city measures of preparing for the winter season, etc. The question of authorizing the HCC to inspect all the housing stock of the city, both in municipal and other forms of possession, was also discussed.

In 1993 the housing stock in municipal possession of the city was transferred to the administrations of the city districts. On the basis of Resolution N 129 of the Novosibirsk Mayor's Office of February 1, 1994 "On the Improvement of the Management System of the City Housing Infrastructure System", administrations of the districts, called orderers, were authorized to perform the function of ordering housing services. In 1994, the IHRTs were renamed Housing Boards (HB) which became parts of the administrations of the city districts. The status of the former bottom units of the trusts, their production services and the HMUs, was not specified in these decisions. It was supposed that the HMUs had to be reorganized to fulfill the orders of the HBs to carry out the current repairs, maintain the housing stock, and improve the territory.

Thus the hierarchical administrative management system started to be replaced by a system of new organizations differing in their objectives and functions. Relationships between them could no longer be built on the administrative model and, objectively, new methods and means of management were necessary. In other words, in the course of the housing reform, conditions began to be created for the introduction of an effective contract management model successfully tested in the course of the market reform under the Demonstration projects.

In that period, in the Demonstration projects, the transferring of the municipal housing maintenance to the managers through a competitive bidding process became an organic part of the housing reform in Novosibirsk. Already during the first year of their operation, the Demonstration projects showed considerable internal potential for the contract management model and its abilities to considerably improve the quality of services rendered to the residents and maintenance of the buildings. Ideas of contract relationships found broad response among the leaders of the housing economy at different management levels, from the leaders of the HBs to the HMU directors. Interviews with the

heads of municipal housing organizations showed that they followed closely the development of the Demonstration projects and tried to apply their operating forms and methods. The majority of them pointed out that the features of the suggested management model such as financial independence of the bottom level units and the contract system were adequate for the solution of problems of improving the quality of maintenance.

Under the conditions of the reform going on in the city housing structure, new economic relationships were gaining ever broader acceptance in the practice of municipal housing maintenance. New methods of work were most actively applied in the districts of the city where the market experiment was going on. With the realization of the Demonstration projects in these districts of the city, a competitive environment in housing maintenance was created. It stimulated the application of the elements of the contract model and improved the level of housing maintenance. Comparison of results of the second and third stages of monitoring revealed that the process of modernization that the state organizations were undergoing influenced the quality of their operation. Data of Table 6.6 demonstrate a growth in the level of satisfaction assessments of the housing organizations undergoing the period of reformation.

Table 6.6

**Dynamics of the Assessment of Satisfaction
in Houses Maintained by State Housing Organizations Undergoing Reformation, Novosibirsk, 1994-1995, %**

The Interval of the Assessment	April 1994	May 1995
from 2 to 3	17	10
from 3 to 4	62	50
from 4 to 5	21	40
Total	100	100

Over the period from 1994 to 1995, the level of resident satisfaction assessments concerning housing maintenance increased. The share of unsatisfied residents decreased from 17 to 10 percent, while the share of those being satisfied, with “good” or higher assessments, increased from 21 to 40 percent.

A growth in the level of resident satisfaction was primarily achieved in the aspects where the transformation was more complete. It is illustrated by the dynamics of the assessments of the main aspects of housing maintenance.

Housing maintenance activities are subdivided into four groups. The first group is represented by activities on improving cleanliness in the yards and entries (Figure 6.10).

Over the period from April 1994 to April 1995, the assessment of cleanliness in the yards and entries maintained by the state organizations undergoing reformation increased on average from 3.45 to 3.75, or 8 percent monthly. At that period the HMUs began to independently manage the wage fund of the operating personnel. The unspent wage fund for this category of personnel began to be spent for the labor stimulation of the working yard-cleaners and entry-cleaners to a larger extent than before. In the past, these funds had been transferred to the trust level since it was a higher management level. Labor motivation of ordinary workers was thus raised helping to improve the quality of their work.

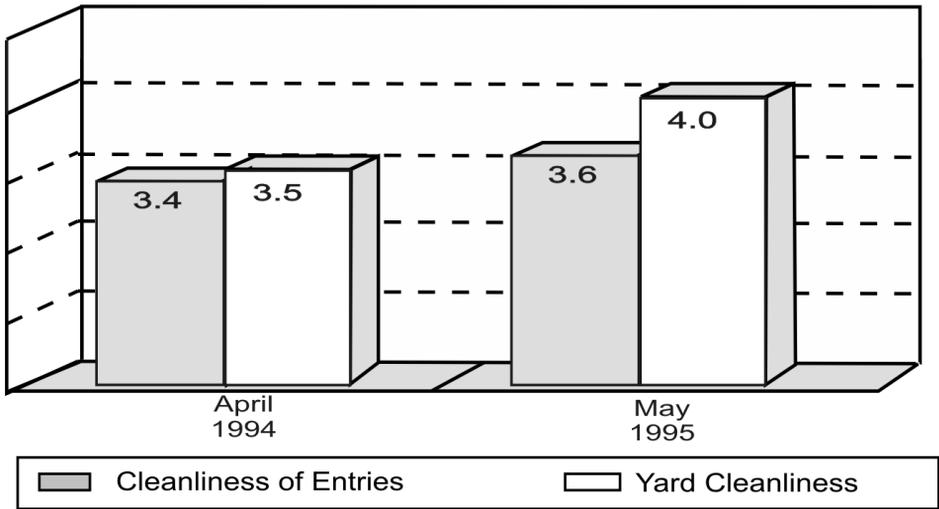


Figure 6.10. Dynamics of Average Assessments of Yard and Entry Cleanliness in HMUs in the Neighborhood of the Demonstration Projects, Novosibirsk, 1994-1995

The next group of assessments characterized the attitudes of HMU personnel toward residents. The attitudes of the personnel of maintenance organizations toward residents resulted from the economic conditions of operation of the housing organizations. Namely from the share that the residents' payments, in the form of the housing fee had in their income, whether residents pay it directly or into the accounts of higher organizations, etc.

Dynamics of assessments of attitudes to residents in the state housing organizations is shown in Figure 6.11.

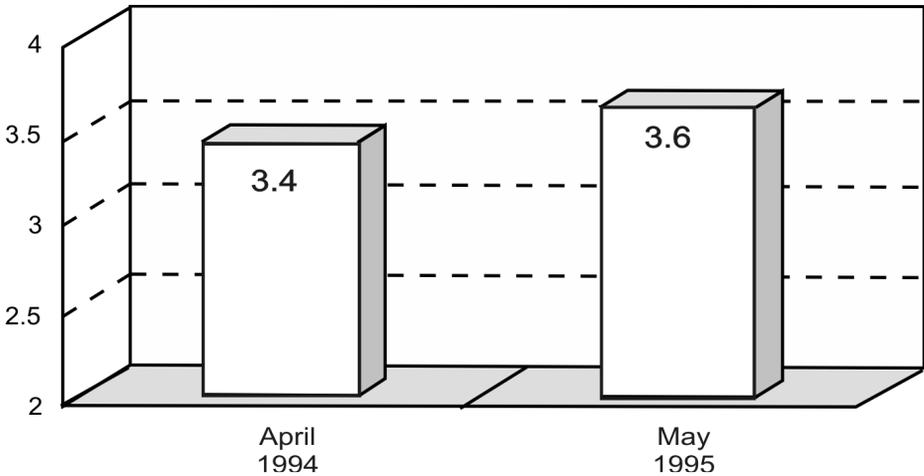


Figure 6.11. Dynamics of Assessments of Attitudes toward Residents in HMUs in the Neighborhood of the Demonstration Projects, Novosibirsk, 1994-1995

Improvement of staff attitudes toward residents in the state housing organizations was primarily connected with the growth of the share that the housing fee had in the income of the housing organizations over the period from April 1994 to May 1995. It increased several times and became the largest part of their income. The method of paying the housing fee was also changed: previously, it was done at a savings bank into accounts of housing trusts but now — directly to the cashier at a HMU. The order of collecting the housing fee and its growth increased the financial dependence of HMUs on whether the

residents paid it on time or not. It stimulated a more attentive attitude to residents on the part of the HMU personnel. Also, it helped to improve the response to residents' requests.

Dynamics of response to residents' requests, being the next aspect of HMU operation, is shown in Table 6.7.

Table 6.7

Repair Requests Completed by Plumbers and Electricians in HMUs in the Neighborhood of the Demonstration Projects, Novosibirsk, 1994-1995

Share of Requests, %	April 1994	May 1995
Completed Promptly, Good Quality	53	56
Completed After Repeated Calls to HMU	15	12
Uncompleted	32	32
Total	100	100

During the period from 1994 to 1995, the structure of request completion by the state housing organizations undergoing reformation slightly improved. A share of requests completed promptly increased from 53 to 56 percent.

The fourth group of assessments characterizes the level of elevator and garbage chute maintenance. Both the personnel of housing organizations represented by elevator operators and chute attendants and subcontracting organizations maintaining elevators and disposing of garbage are involved in this work. For this reason the level of assessment of elevator and garbage chute maintenance largely depends on the interaction between these organizations.

The dynamics of assessments of elevator and garbage chute maintenance by the state organizations is shown in Figure 6.12.

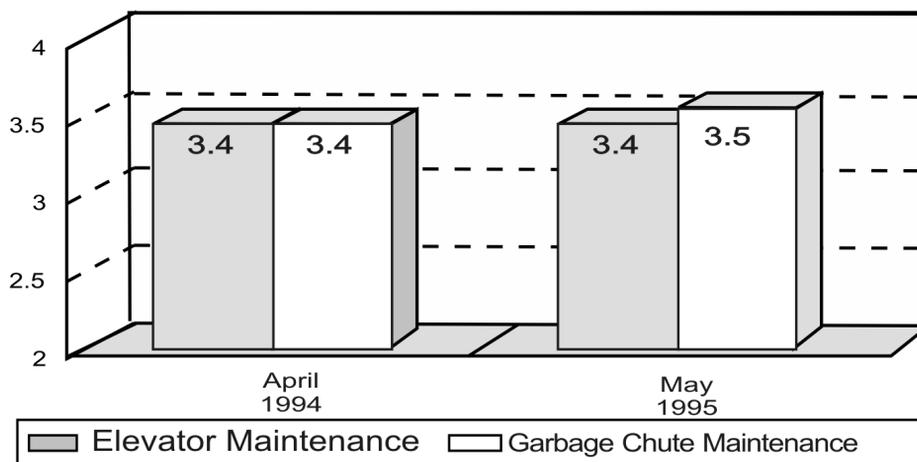


Figure 6.12. Dynamics of Average Assessments of Elevator and Garbage Chute Maintenance in HMUs in the Neighborhood of the Demonstration Projects, Novosibirsk, 1994-1995

At that period of time the relationships between housing organizations and their subcontractors began to be built on the basis of mutual contracts. It resulted in a more accurate performance of responsibilities by subcontracting organizations. Thus the assessment of garbage chute

maintenance improved. Over the period from April 1994 to May 1995, this assessment increased on average from 3.4 to 3.5.

By and large, analysis of level of resident satisfaction assessments and the quality of housing maintenance rendered by state organizations undergoing reformation showed that their performance began to bring more positive results. At the same time, resident requests were not yet fully completed. Every third request was not completed. The average assessment of the quality of maintenance did not reach a “good” rating, while a share of residents unsatisfied or not-quite-satisfied with the quality of housing maintenance continued to be considerable and amounted to 60 percent.

The preservation of the elements of the administrative management model became an obstacle to further development of housing maintenance. They were coming to a better and better understanding of this fact more and more in the course of legislative and everyday economic practice. The continuation of the reform of the state management system in housing was based on the complete rejection of the administrative management model and its replacement with the contract management model. Realization of this model in the course of the market experiment under the Demonstration projects represented an effective sample of the way the relationships form between the municipal owner of the housing stock playing the role of the orderer of housing services and independent maintenance organizations, established on the basis of the former HMU, playing the role of a contractor.

In other words, the Demonstration projects, the essence of which was to work through the market economic forms and methods, demonstrated the possibilities and mechanisms of effective operation for the organizations in conditions of the razdatok-economy. Management companies became the prototypes of new types of organizations most adequately matching the razdatok-economy undergoing the transformation period.

The model of management companies developed in the experimental environment was to a large extent realized in Municipal Unitary Enterprises (MUE) established in the city to maintain the city housing stock. MUEs were the “direct successors” of the Demonstration projects as they used legal documents elaborated in the course of the realization of the Demonstration projects, namely the charters of enterprises and the Management Contracts as well as the rules that established their share of the structure of the district housing organizations and their mechanisms of operation.

The first organization of the new type, the municipal enterprise “Zhilishchnik”, was established in the city in 1994 on the basis of one of the HMUs. In accordance with the new Civil Code of the Russian Federation (Articles 113 and 114) this enterprise received the status of a municipal unitary enterprise in July 1995. Enterprises of this type are a new legislative form in the sphere of managing municipal property.

The main features of a housing organization in the form of a municipal unitary enterprise are:

- an enterprise is established in the sphere of managing municipal property;
- an enterprise does not receive the ownership right of the property allotted to it;

- unitary character of the enterprise means that its property can not be divided in contributions, i.e., in shares including the division between the enterprise personnel;
- an enterprise does not have a higher management body, the manager of an unitary enterprise represents the only management body it has;
- the manager of the enterprise is appointed by the owner of the property.

Housing organizations in the form of municipal unitary enterprises complied with the peculiarities of the institutional environment of the razdatok-economy to the largest extent.

They presupposed:

- first, free of charge allotment of production and material resources necessary to maintain the housing stock,
- second, financing through the municipal budget in the form of housing fees and lease collected by the enterprise and in the form of subsidy according to the normative regulation;
- third, the necessity to carry out the normative maintenance standard determined by the state bodies and the amount of allotted financing.

At the same time, in the new state form of housing organization contract management model and not the administrative was used. The elements of the new management model were:

1. legal independence and availability of separate settlement accounts in a bank both for the orderer and the contractor of the housing maintenance services;
2. a management contract concluded between the owner of the housing stock — district administration, playing the role of an orderer, and the municipal unitary enterprise, playing the role of a contractor;
3. a fixed-term for the contract and the possibility to dissolve it if the parties do not observe the conditions of the contract;
4. the contract is concluded between the district administration and the manager of a municipal unitary enterprise; it helps to separate management costs and financial resources allotted for the housing maintenance.

The described type of state-contract housing organizations combined the contract management model, which proved its effectiveness, with the state organizational legal form. It helped to block the bureaucratic financial mechanism typical of the state-administrative organizations and preserve the one used in the private-administrative type of organization.

The results of the third stage of monitoring showed that the tendencies toward the growth of effectiveness typical of the Demonstration projects at the experimental stage fully revealed themselves in MUEs. For example, in MUEs, proportions in the spending of the state resources allotted for housing maintenance changed considerably. The share of the wage fund in the structure of all the expenses decreased, while the share of the materials and repair fund increased. The level of wages exceeded that under the administrative management model; at the same time the staffing level increased. Qualified personnel were attracted to housing maintenance on a competitive basis. Management costs in municipal unitary enterprises, compared to those a HB bore, declined sharply as there was no higher

management level. The assessment of work of MUE managers was determined by the level of resident complaints directed to the owner of the housing stock who was the orderer of housing maintenance. An excessive level of complaints was the basis for the reduction of the management fee paid to the manager of the municipal unitary enterprise. All the factors together resulted in the improvement of the quality of state housing maintenance.

A search for effective forms of maintaining the housing stock is constantly going on both in East European and Western countries such as England and France, all of which have a considerable public housing sector. The goal of this search is to find such a form which will “combine independence and flexibility with responsibility in the spending of public resources”¹⁴, and “provide a certain degree of public responsibility and avoid bureaucracy on the one hand, and excessive risk, sometimes with disastrous consequences, on the other hand”¹⁵. State-contract organizations established at the initial stage of modernizing the institution of state ownership in Russia met these criteria completely.

Establishment of state-contract organizations was the consequence of the first stage of the reform in the course of which numerous market institutional elements, from attempts to form private ownership to the application of labor contracts, were introduced. When market elements were interacting with the razdatok-macroeconomic environment, an institutionally sustainable new type of organization was born. It was the one that could best provide effective operation of the razdatok-economy at the new stage of its development.

The results of institutional changes in the course of the market transformation which started emerging from the mid-90s are schematically presented in Figure 6.13.

The first important result was a deep transformation of the institution of state ownership. In the course of the institutional modernization, state property was divided into federal, regional and municipal property. In this connection, the economic role of the state changed drastically. State bodies at different levels began to perform the role of the orderer for all branches of economy.

The second result was the formation of a new management model instead of the old administrative one that could no longer cope with the goals of organizing the country’s economy, which was acquiring a more complex character. The new contract management model visualized the role of the orderer for the state bodies which entered into contracts with the state-contract organizations of different organizational and legal forms as being the contractors for rendering services or production.

¹⁴ P. Willmot and A. Murie, *Polarization and Social housing* (London: Policy Studies Institute, 1988), p.23.

¹⁵ *Ibid.*, p.157.

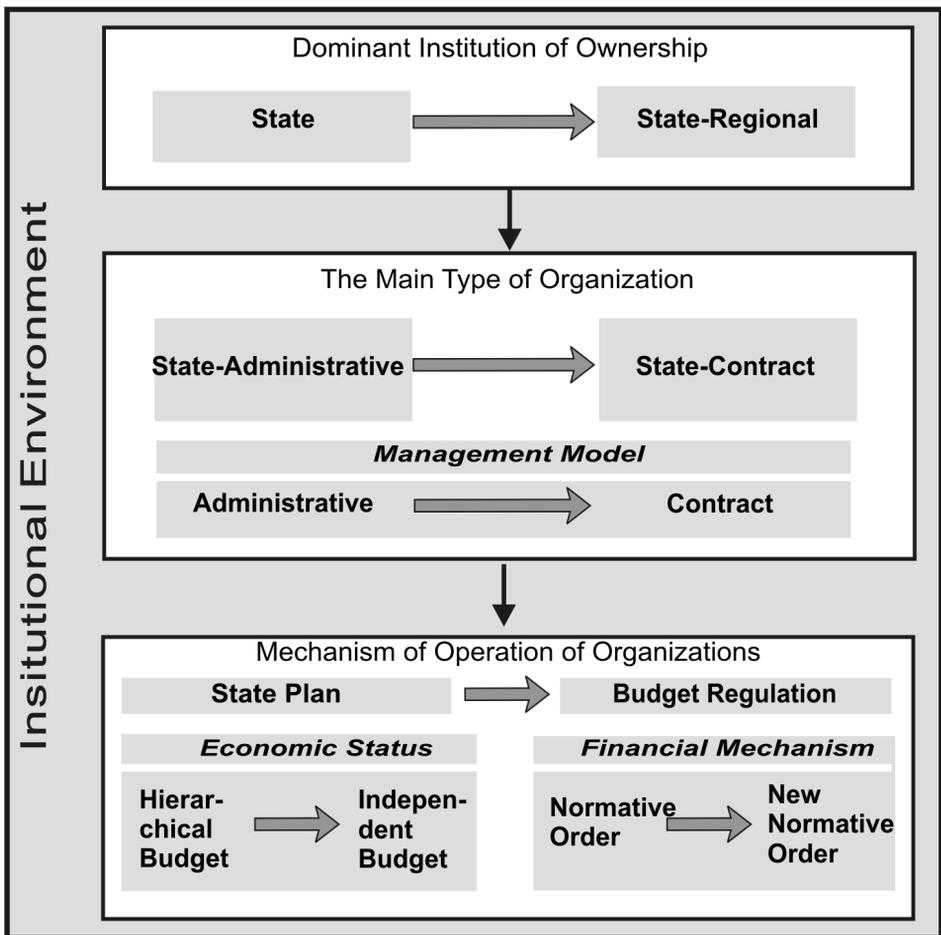


Figure 6.13. Renewal of the Institutional Environment of the Razdatok-Economy in Russia

The third result of the institutional transformation was the formation of a new mechanism of operation for all economic organizations as state planning was replaced with budget regulation. The state plan, from a financial point of view, represented a hierarchical budget of state income and expenses where the budgets of all lower economic units were parts of the budgets of higher economic structures. The essence of budget regulation is that rules for spending the state resources by independent economic entities must be established. These are legal entities with independent budgets. The basis for budget regulation is formed by contract relationships and a new normative order. A new normative order is formed by fixing spontaneously emerging, effective economic proportions to replace the old system of normatives.

These perspectives in renewing the institutional environment of the razdatok-economy in Russia are determined by the inner logic of the current processes. In the housing economy, the establishment of state-contract organizations, for example, in the form of MUEs, the Resolution of the President of Russia which introduces the “separation of the functions of orderer and contractor in maintaining the housing stock and the transition to contract relationships between organizations, which perform these

functions”¹⁶, the draft of the Federal Law “On the Housing Infrastructure System” which determines the directions of the institutional transformation as applied to the housing sphere, represent the movement in this direction.

* * *

The market transformation of the Russian economy in the 1990s resulted not in the formation and development of market relationships, but in renewing the institutional razdatok-economy environment. Such conclusion, being paradoxical at first sight, is based on the historic analysis of the institutional development of Russia and the data of the economic-sociological monitoring of the current stage of the reform. The conclusions made in the course of monitoring the market experiment in housing equally refer to the Russian economy as a whole because the institutional organization of all branches of the state economy at a definite historic period is identical.

¹⁶ A resolution of the President of the Russian Federation N 432 as of March 29, 1996 “On the Development of Competition in Rendering Maintenance Services at State and Municipal Housing Stock”.

Conclusion

Razdatok-economy and market-economy represent two alternative institutional systems being formed in different societies to organize the economic life. Both razdatok and market economies must provide effective production of goods and services according to the needs of the population. While the USA represents a classic example of the market economy, Russia is a prominent example of a razdatok-economy. The reasons for the formation of either type of economy lie within the features of the natural environment and the means of its development formed at the initial stages in the history of each state. In the course of its development, each economy strengthens the features typical of it, while the expediency of the appropriate economic system is reliably consolidated in the consciousness and social values of generations.

Cyclic development is typical of all economic systems functioning according to the laws of either the market economy, or the razdatok-economy. Each institutional cycle is characterized by economic institutions, types of organization, and management models of its own. These are the ones which make it possible to realize the basic economic laws and provide sustainable economic development under specific historic conditions to the largest extent. In a market economy, such an institutional environment provides the realization of the law of supply and demand, while in a razdatok-economy it provides the realization of the law of balancing tribute and distribution flows in all sectors of the state economy.

At periods when the elements of the institutional environment can no longer guarantee the functioning of the basic economic laws, the economic systems and all their branches enter a period of crisis, while the system of economic relationships enters a period of institutional change. A feature common to these periods is the testing and the introduction of institutional elements of alternative types of economies which make it possible to overcome the crisis. For example, after the deep crisis of the 1930s in countries with market economies, state regulation methods typical of razdatok-economies began to be actively used.

In the course of the historic development of the razdatok-economy in Russia, at periods of institutional change, introduction of methods of organization of economic life from the current experience of economies with a market type took place as well. Usually the names of new types of organizations and economic methods were borrowed to the extent that the names of these historic periods were extended to the economic historiography of Russia. For example, the period of institutional change in the Russian razdatok-economy from the middle XIII century to the end of the XV century was called feudalism¹⁷ and the period from the late XIX to the early XX century was called capitalism¹⁸.

When a new management model was found and all the elements of the institutional environment were renewed, then the period of institutional change was finished and a new cycle began. It made it possible to provide the proper functioning of the basic economic laws and the growth of

¹⁷ I. Pavlov-Silvansky, *Feudalism in Russia* (Moscow: Nauka, 1988), p.482 (in Russian).

¹⁸ V. Lenin, *Development of Capitalism in Russia*, Complete Works, vol 2., p.542 (in Russian).

economic effectiveness under changed historic conditions. For example, the essence of the previous period of institutional change in the economy of Russia which started at the end of XIX century and finished in the early 1930s, though interrupted by the revolution of 1917, was the transition from a serfdom management model to the administrative one. The essence of the current period of the institutional change, called the period of market reforms, is the replacement of an ineffective administrative management model and the formation of a new mechanism for regulating and balancing tribute and distribution flows.

The ineffectiveness of the administrative management model in the razdatok-economy in a period of crisis resulted from the character of bureaucratic financial mechanism developed during the 1970s and 1980s. The operation of the bureaucratic mechanism, described in this book for the first time, resulted in the excessive growth of management costs, a reduction of financial resources for the main production activity, a deterioration of the labor motivation on a mass scale, and a reduction in the effectiveness of the economy.

The current period of the market transformation in the razdatok-economy of Russia has demonstrated the consistencies of institutional renewal. At the first stage, an introduction of alternative economic institutions takes place. At this period, the institutional environment is characterized by the presence of elements of both market economy and razdatok-economy as well as their various combinations which exist on equal grounds. Some of them turn out to be institutionally stable and to correspond both to the nature of the razdatok-economy and its macroeconomic environment, while others came into conflict with the communal nature of the material-technological environment and the domineering etatization potential of the population. The essence of the second stage of institutional renewal is the modernization of the basic state ownership institution on the basis of sustainable combinations of institutional elements.

These consistencies were proved by the results of the economic-sociological monitoring of the market experiment in 1993-1996.

At the first stage, an attempt to introduce the private ownership institution led to the emergence of private-administrative type of organization, combining the private form and the administrative management model that was typical of the crisis period in the razdatok-economy. The devastating influence of the bureaucratic financial mechanism on organizations of this type was worsened by the private form, blocking the state control of the state resources at their disposal.

In that period, the creation of conditions for the development of privatization potential of the population in housing, for example, did not lead to the formation of a considerable group of private owners on a large scale. On the eve of the market transformation, privatization potential embraced less than 40 percent of the population and was exhausted during the first three years of the market reform.

The second stage of the institutional renewal in the razdatok-economy in Russia begins in 1995 with the formation of new type of state-contract organizations combining the state organization-and-legal form typical of the razdatok-economy with the management model borrowed from the market experiments.

The essence of the new contract management model is a strict legal separation of bodies distributing the state resources and organizations using these resources to perform work under the contract. Thus the functions of the orderer secured for the federal, regional, and municipal bodies and the functions of the contractor given to the state-contract organizations such as municipal unitary enterprises, for example, are divided.

The hypothesis about the essence of the current period in the institutional changes in the razdatok-economy of Russia is substantiated in this book. Its essence is the modernization of the institution of state ownership, a transition from the administrative management model with the state plan as the main regulating mechanism to the contract management model where tribute and distribution flows are balanced with the help of budget regulation. At the same time, the old feedback mechanism in the form of complaints is renewed and new mechanisms are created. Here the elections of representatives of legislative and executive powers on a multiparty basis should be listed. Thus the institutional renewal of the modern razdatok-economy is taking place, giving it ways for further development.

The authors have the goal of proving this hypothesis within the framework of a new theory of institutional development of razdatok-economies, Russia being its prominent representative.



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