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THE LAND OF LOST OPPORTUNITIES: AN INSTITUTIONAL HISTORY OF THE DON AGRARIAN AND TRADE ENTREPRENEURSHIP

The Region of the Don Army [Oblast Voyska Donskogo] which is characterized by beneficial geographical location, relatively soft climate and a plenty of fertile lands, could become one of the centers of the development of agrarian and trade entrepreneurship in the Russian Empire. However, in this regard, the Don Region strongly fell short of its neighbors in the XIX – beginning of the XX centuries. There are, of course, objective reasons for relative economic backwardness of the Region of the Don Army. The main reason is its military organization of administration and the Cossacks' liabilities for military service. It is archaic and inefficient institutional structure of the Don economy became the cause of economic failures. This paper tries to understand an influence of economic institutions on forming of the basic market mechanism of agrarian entrepreneurship in the Don Region in the end of the XIX century and in the beginning of the XX century. It can contribute to an understanding of the contemporary institutional changes.

Institutions matter. Their role is not reduced to the framework determining behavior of the economic agents. Institutions as an element of culture (including economic culture) mould preferences, behavioral models, modes of organization of business and exchanges. It is important to take into account historical properties of institutional evolution, and also their influence on local rules and mechanisms of organization of market exchange. Institutions play very important role as the factor of formation and functioning of economic order, exactly because that they set long-term constraints and create persistent stereotypes of behavior of economic agents. In the end, the quality of institutions determines economic efficiency of country or some region. Economic history of the Don Region is very interesting exactly due to the special regime of institutional regulation of economic activity. This regime was unique for Russia. The fact that in the Don Region various ethnic and class groups were exposed to diverse specific institutional regulation is very interesting from the institutionalist point of view.

Economic evolution of any country or region in its historical development does not guarantee efficient outcomes of adaptation to the changing circumstances even if market exists. Such evolution does not guarantee also Pareto-efficiency of functioning. Therefore, we cannot develop universal ways of providing economic prosperity. But we can reveal laws and vector of economic evolution of some society in some period of its development. In such case history, culture and institutions matter (Volchik 2004).

Neo-Evolutionary Economics¹ and Economic History provide us with instruments and empirical evidence which help us to understand reasons for long-term and stable existence of suboptimal institutions. Application of Neo-Evolutionary Economics can also contribute to a construction of more complete picture of development of the Don agrarian and trade entrepreneurship.

Forming of institutions is considered as an evolutionary process within the framework of this analysis. However, an approach to forming and „strengthening” of institutions, which is generally accepted in the modern institutionalism, seems too much narrow-minded. When institutions are dynamically analyzed, it is necessary to emphasize main institutional innovators and dominating interest groups which contribute to the process of forming and changes of institutions.

Bad institutions are often characterized by striking vitality. This feature was described in a multitude of works written within the framework of the very important theoretical branch of Neo-Evolutionary Economics – Path Dependence. The evolution of institution of „agrarian property” and „militaristic” direction of the development of the Region of the Don Army can be considered as an illustration of Path Dependence. However, the contemporaries face with difficulties trying to make „good” decision in favor of efficient institution. It is impossible sometimes to make such decision. The striking example can be the fact of understanding – by the

¹ Neo-Evolutionary Economics in the traditions of B. Arthur and P. David is different from Evolutionary Economics of R. Nelson and S. Winter. The difference takes place because the former emphasizes an evolution of suboptimal and relatively inefficient institutions and technologies in the conditions of path dependence. See suggestions on an existence of „Neo-Evolutionary „Branch” in Economic Theory in: Fligstein N., Feeland R. Theoretical and Comparative Perspectives on Corporate Organization // Annual Review of Sociology. 1995. V. 21. P. 21 – 43.

contemporaries – of existence of inefficient economic and social institutions, and also repeated attempts to reform economic institutions and mechanisms of the Region of the Don Army, which are made up to 1916 and in general failed. History gives us useful facts which allow (although in retrospect) to emphasize important laws of functioning and development of economic institutions in the Russian economy.

Relatively low performance of economic development of the Region of the Don Army can be explained mainly by specific institutions. Favorable geographic, climatic and transport opportunities for development of trade and agrarian entrepreneurship were not used during all the XIX century and in the beginning of the XX century. Moreover, evolution of institutions which determine rules and constraints for economic agents was often resulted in substitution of bad institutions for worse ones.

Paradoxes of institutional history of entrepreneurship in the Don Region can be more easily understood in context of political and cultural history. When evolution of economic institutions is analyzed it is also necessary to take into account path dependence. Here we should pay close attention to the properties of „coming-into-being” of the Don Region as a part of the Russian Empire. Phenomenon of path dependence is based on understanding and emphasizing facts of historical conditionality of development of systems characterized by positive feedback (Arthur, 1994; David, 1985). However, this process is unlike „historicistic” one. The latter implies „strict”, „rigid” determination of stages and processes of historical development of social systems (Popper 1993).

When evolution of economic institutions is analyzed, it is necessary to take into account that some situations are beyond the Neo-Institutionalist framework of models of institutional equilibria. Researches should have inductive thinking in order to develop relevant theories (hypotheses) which give understanding of processes of non-linear development of rules and mechanisms of regulation of economic processes (Arthur 1994a, 6-411). Economic History can be important factor for understanding of evolution of complex economic systems, if we bear in mind forming of patterns of inductive thinking.

The construction of clear picture of evolution of agrarian and trade entrepreneurship institutions in the Don Region can be accompanied by attempts of development of „counter-factual” historical models (Cowan and Foray 2002, 539 – 562). Although such approach can be rather fruitful, it is not directly relevant for purposes of this paper. History of development of institutions of entrepreneurship is a succession of missed opportunities for implantation of efficient of economic rules. Possible best alternative ways of forming of institutions were not realized owing to many causes. The main reasons are

lack of influential groups interested in the development of entrepreneurship, and also „militaristic” policy of the imperial government.

Functioning of some institution is concerned with current interactions between economic actors: organizations, interest groups and individuals. Therefore, interest groups play very important role in the process of institutional selection, it being known that interests of such groups can be both narrow (special) and overall. Special interest groups are usually treated as an aggregate of agents which are characterized by coincidence of economic interests and affected by selective incentives for production of joint collective good. Groups with special interests can create structures (for lobbying political and economic decisions and normative acts), oligarchic and monopolistic structures, and also take part in redistribution. Rule, institutional agreement, or institution, matter only when there is a significant quantity of individuals which follow them. Individuals make small and large secondary groups, within the framework of which there is a forming of selective incentives. It allows inclusion of groups into the process of creation, change and strengthening of institutions.

According to M. Olson approach, special interest groups affect economic development negatively. On the contrary, activity of groups with overall interests mostly leads to implantation of efficient institutions (Olson 1998). In the course of planning of institutional reforms in the sphere of organization of the economy of the Region of the Don Army there was a realization of special (narrow) interests. Consequently, it was a cause of implantation of suboptimal institutions. Finally, narrow interests of militarized elite generated in many respects low performance of repeated attempts of reforming economic institutions of the Don Region.

But by the end of the XX century there were publications of many works which earnestly prove hopelessness of institutions formed in the economies under the domination of groups with narrow, special interests. The economy of power groups, as E. de Soto fairly noted, strikingly resembles classical system of mercantilistic economy. Institutions of mercantilistic economy were relatively efficient for their time, in the XVI – XVIII centuries, but in the XX century a system of modern mercantilism is an institutional trap where – due to lock-in – already obviously inefficient institutions are strengthened and function over the long period of time (Soto 1975).

However, treatment of narrow (overall) interests groups as innovators of inefficient (efficient) institutions would be too much simplified. The groups are the units of social selection which generate change, selection and preservation (inheritance) of institutions structuring social interactions.

When interest groups are well preserved and expand, they take part in both generative social selection and

subset social one (Hodgson and Knudsen 2005). It is very difficult to distinguish interest groups in concrete society and economic order. To explore them is still more difficult task. However, such groups are more real² than notorious populations of firms. The groups (we speak in this context about secondary ones) attract attention mainly due to the fact of coordinated or solidary actions in the course of creation of some rule or during following it. The domination of subset selection in an evolution of economic institutions of the Region of the Don Army led to some stability. But, in this case, stability of archaic institutions was often irresistible barrier to implantation of progressive institutional innovations.

Because groups are considered in the light of account of some institutional actions, change of personal membership in some group does not affect group-supported rules, routines, and institutions strongly. The example from history of Russia can be economic and entrepreneurial activity of the Old Believers who followed some informal institutions, in particular, specific economic ethics (Benam and Benam 1999).

The fundamental cause of inefficiency of interest groups as institutional innovators is their long stability and irremovability within the framework of political system. After the works of M. Olson there is a generally accepted view that large groups provide with their members collective good worse than small ones. Moreover, large groups are less stable. Therefore, if the problem of stability of interest groups (or the problem of „social sclerosis”) can be solved at the expense of flexibility of political institutions, that it gives chance of forming and functioning of efficient economic and political institutions for society with a plenty of special interest groups³. However, in the traditional and less developed societies, in which most social alliances are primary groups and religious communes, the principles of „social sclerosis”, destruction and movability of groups must be considered separately taking into account specific features of such societies and their economic system.

In economic history of the Don Region we can distinguish some points of bifurcation, when there was a opportunity of choice among several variants of institutional development, for example, in the beginning of the XVIII century and in the 60s of the XIX century. The actions of institutional innovators or lack of such actions,

of course, cannot be considered beyond general, historical context of economic development of the Russian Empire in the XIX century and in the beginning of the XX century. However, it is distinction in institutional regulation of entrepreneurial activity in the Don Region from such region of the Empire that attracts close attention.

It is important to note that economic success can be promoted by not only institutions which constrain monopoly power or decrease uncertainty in interactions between agents. In some conditions actors also behave in some opportunistic manner, i. e. are interested in cheating, information hiding etc. Such actions can be efficient in order to be successful in market activity as well as provision with more qualitative services, decrease of production cost, and creation of new products, and also offer of lower prices (Kerber 2006).

The process of creation and change of institutions depends upon culture and dominating values which are formed within the framework of ethnic communes. In the Region of the Don Army, Taganrog district („Taganrogscoe gradonachal'stvo”) and Rostov uyezd of Ekaterinoslav province („Ekaterinoslavskaya guberniya”) polyethnic structure of population was historically formed in the XVIII – XIX centuries. The main ethnic groups are Great Russians, Little Russians⁴, Armenians, Jews, and Greeks (Fursa 2001). Within the framework of ethnic groups specific culture, including entrepreneurial one, was formed. It is important to note that in one ethnic niche a few types of economic culture could be formed, for example, in the environment of the Great Russian peasants, the Cossacks, the Old Believers.

The Region of the Don Army, entering in the XVIII century in membership of the Russian Empire, had become to play important role in economic, military and political life of State. This region was characterized by many features of development which are specific for the Central Russia, but general for any South region. The main feature is a presence of the Cossacks („military class”). According to the data of administrative and revision registration of population in 1858 the Don Cossacks amounted more than 50% – 564 thousand (54%), peasantry – 413 thousand (39,5%), nobles and offocoals – 14 thousand (1,3%) clergy, merchants, bourgeois, retired soldiers, Little-Russian Cossacks and other categories of population – more than 53 thousand (5,2%).⁵

² Explorations of the interest groups can be found in the works of political scientists and adherents of public choice theory. See: Makarenko V. P. Gruppyvye interesy i vlastno-upravlenchskiy apparat: k metodologii issledovaniya // Sotsiologicheskie issledovaniya. 1996. No. 11; Buchanan J., Tullock G. Raschyot soglasiya; Buchanan J. Granitsy svobody. Mezhdru anarkhiei i Leviathanom / Nobelevskie laureaty po ekonomike. J. Buchanan. Moscow. 1997; Nureev R. M. Teoriya obshchestvennogo vybora. Moscow. Izdatel'sky dom GU-VSE. 2005.

³ The economies of the Scandinavian countries can be examples.

⁴ „Little Russia” is the name of Ukraine in the “tsarist” era. Hence, Ukrainians are called „Little Russians”.

⁵ GARO F. 55. Op. 1. D. 381, L. 1 – 6.

The military direction of the development of the Region of the Don Army („military class” amounted majority of population up to 1917, see Table 1) was beneficial mainly for narrow groups with special interests which filled the leading posts in this region. However, exactly these groups repeatedly initiated prohibitive measures in the economy which applied to both the Cossacks themselves and the nonresidents. For example, in 1858, according to the Imperially Approved Regulations of Council of Defense (published on 14 May)⁶, – there was an introduction of prohibition for nonresidents to acquire real estate in the Region of the Don Army. In 1868, according to the Imperially Approved Opinion of the State Council, published on 18 June⁷, there was permission for nonresidents to acquire real estate – „houses and buildings of all kinds” – but land assigned for buildings remained ownership of the Don Army. Broadly speaking, institution of „nonresidents” is worthy

of special exploration. We briefly note only that discriminating measures of economic policy nothing but slowed economic development, contributing to spillover of enterprising „nonresidents” in neighboring provinces. Here the striking example is economic development of located nearby Rostov uyezd (distance between Rostov-on-Don and Novocherkassk is nothing but 40 km.) and Taganrog district of Ekaterinoslav province up to 1888.

Militarization of the region (which in the second half of the XIX century was already not frontier area but actually inland one) affects negatively also development of political institutions, in particular, self-government. In the end, in also does not promote development of entrepreneurship. For example, in 1882 in the Don region there was an abolition of *zemstvo* (Russian kind of institutions of local governing). After Rostov uyezd had joined in 1888, *zemstvo* was abolished also in it. In general, during all the 1880 – 1890s militarization of civil

Table 1

Distribution of population of the Region of the Don Army in accordance with classes⁸

Classes	1864		1876		1898		1908		1916	
	population	%	population	%	population	%	population	%	population	%
Nobles	14913	1,5	18688	1,46	23278	0,96	24022	0,8	29520	0,82
Clergy	6564	0,68	6986	0,54	7061	0,28	6538	0,22	6191	0,17
Urban	974	0,1	2871	0,22	153833	6,23	100239	3,4	107903	3,02
Rural	289856	3,14	373175	29,25	678111	27,46	840675	28,9	878330	24,6
Military	639907	66,54	776601	60,8	1162925	47,1	1418533	48,8	1680404	47,1
Permanently living nonresidents from other classes	-	-	97090	7,6	406083	16,4	445838	15,3	794434	22,2
Foreign subjects	40	0,004	275	0,02	8879	0,35	5702	0,19	10583	0,29
Nonresidents (Tatars, Circassians, Kalmyks, Not Cossacks)	25	0,002	-	-	5356	0,21	10869	0,37	19413	0,54
People not belonging to above-mentioned categories	9301	0,967	1275686	-	22595	0,9	51108	1,7	38832	1,089
Total	961616	100	1275686		2468571		2903524		3565626	

⁶ PCZ. Sobranie II. T. XXXIII. 1858. No. 32938.

⁷ PCZ. Sobranie II. T. XLIII. 1868. No. 45785.

⁸ GARO F. 353. Op. 1. D. 367, 387, 400, 479a, 514.

administration continued steadily. Economic conditions of the Cossacks during the reign of Alexander the Third continued sharply deteriorated. After liquidation of *zemstvo* The Don Army had returned to the principles of times of Nicholas the First. Civil development of the region was, of course, artificially late. Militarization of the region and hard military service of the Cossacks impeded development of homecraft and trade in accordance with the tendencies of economic development in those times (Svatikov 1924, 412).

During the reign of Nicholas the Second the Cossacks are substantially guided from any changes which could improve their economic conditions and, even more so, political position (Svatikov 1924, 437). Actually, autonomy of the region was off and away. The Cossacks were practically the class enslaved by compulsory military service. Being approximately one half of population of the Region of the Don Army, the Cossacks were actually excluded from its economic life.

The major harm for development of agrarian and trade entrepreneurship, and also development of industry in the Don Region was generated by instability and conditional character of property in land. In the 1850s lands of landowners could be expropriated not only for needs of the Don Army, but also upon request of companies or societies which expressed a desire to extract anthracite in parcels of land owned by private „operator” in the Don Region (Dulimov 1998, 191). Specification of property rights concerning land and real estate would led to development of markets and capital inflow, but during all the XIX century achievements in the sphere of clear establishment of absolute and freely alienable private property in the Don Region were very low.

The features of possession of the main resource for agrarian production (which is land) inevitably led to different regimes of use of land and application of agrotechnics (it is important that these features were determined by institutional structure of the Don Region). In estates of the Don landowners whose economic activity was based on own, allotted, or inherited land, there was a use of three-field system. However, numerous tenants using army *yurta* lands or lands allotted for generals and officers who did not belong to the landed classes, do not conform to the rules of any field-use system, upturn virgin soil and after harvesting refuse from cultivating it during sometimes 6 or even 8 years (Dulimov 1998, 175).

Most of the lands which was indicated in the reports as a cultivated one, in reality belonged to the fallow ones. So, in 1857, according to the reports, only 3.5 million *dessiatinas* were cultivated out of 13 million *dessiatinas*; actually there was a cultivation of 500 thousand *dessiatinas* (Dulimov 1998, 176).

Institution of trade class in the Region of the Don Army was formed as a specific institution of trade Cossacks which, unlike „ordinary” Cossacks, were engaged mainly in trade and productive activity, rather than military service. During all the XVIII century Cossacks could engage in any economic activity only when they were free from military campaign and muster. Therefore in the economy of the Don Region there was a lack of many conditions and resources which are necessary for development of agricultural production and trade.

It is interesting that, unlike common Cossack custom to shave beards and have only moustache, trade Cossacks had beards. Thus, they stood out against a background of the most part of people even by appearance. The class of the trade Cossacks was established by the nominal Imperial decree addressed to ataman Platov 12 September 1804 about privilege to avoid military service for Cossacks engaged in trade and having fishery and merchant ships. Originally the quantity of trade Cossacks were determined as equal to 300 people. Annually each of them should was to pay 100 rubles (Savelyev 1904, 40).

12 September 1834, based on the Imperial decree, there was an establishment of the Don Trade Society. The order of its functioning, and also rights and duties of trade Cossacks were determined in the Imperially approved (26 May 1843) regulations on the administration of the Don Army. According to the regulations, trade Cossacks were released from any military service, and instead should annually were to pay 200 roubles. The period of service for Cossacks of the Trade Society was determined as equal to 30 years. During this period they were obliged to pay the Army prescribed sum (Savelyev 1904, 42). The Trade Society included five hundred Cossacks. The process of entry into membership of the Trade Society was not simple.

The order of certificates delivery for Cossacks of the Trade Society implied that in the course of admission into the Society of the Don Trade Cossacks there must be the following guarantees:

- 1) regarding behavior;
- 2) regarding determined sum of capital (1500 silver roubles);
- 3) regarding kind of trade;
- 4) regarding family life;

Those who have advantage over other potential entrants had been entered into trade Cossacks. Requests concerning entering were considered and complied with (or not complied with) by the Commercial court.⁹ The Cossacks of the Trade Society which did not pay prescribed dues by the specified date, were treated as drop-out. They became first and foremost „candidates” for pressing into military service. Such people served

⁹ GARO. F. 200. Op. 1. D. 32.

within the period of military service specified for „first and foremost Cossacks of combatant service”. But, at any case, retirement age for them was thirty eight (Buslenko 1996, 27).

In 1855 the membership of the Society of Trade Cossacks had been expanded and become equal to 750 people. In the same year there had been permission to enter into the trade Cossacks not only individually, but also by families. Membership dues (for each serving Cossack) was established as equal to 57 roubles 15 kopecks in silver. In the same year the Don Trade Society was given a new name – the Society of the Don Trade Cossacks.

A quantity of Cossacks which wished to enter into the Trade Society increased year by year. Therefore the membership of the society repeatedly was expanded – in 1859 up to 1000 people, in 1869 up to 1500 people. However, a quantity of those who wanted to enter into the Society of the Don Trade Cossacks did not decrease and significantly exceeded the specified limit. Therefore, 8 May 1869, according to the Imperial command, this limit was almost abolished: the only constraint was to provide total quantity of serving Cossacks having a low rank which would be sufficient for recruitment (for combatant service). In 1874 a quantity of trade Cossacks amounted to 3760 people, in 1875 – to 3921 people. In 1875 their sum of paid-up dues was equal to 255 548 rubles (Savelyev 1904, 55-56).

But, according to the new army regulations (adopted in 1875), entering of new members was stopped. In 1885 the membership of the society included only 482 people (Maslokovetz 1899, 265). In the same year there was permission (applied during 3 years) to include in the staff of the Trade Society with payment: 300 roubles from „first and foremost” and „preparatory” Cossacks and 150 roubles from Cossack sergeants, „second- and third-order” Cossacks, and also retired ones. Owing to such high dues a quantity of entered was very small. According to the Regulations of Council of Defense there was a decrease of the dues. This sum had become equal to 200 roubles for those who had not served during all specified period of service, 100 roubles for those who had served during all period, 50 roubles for retired Cossacks. In 1898 the Don Trade society included only 194 people (Buslenko 1996, 48 – 49).

A trade by the Don Cossacks within the bounds of the territory of the Don Army was exempted from any government duties. The Don Cossacks were obliged to pay dues only in favor of the Don Army itself (Buslenko 1996, 25). But privileges impeded rather than promoted development of entrepreneurship, because they actually hampered trade Cossacks entry into the external markets, and also restrained penetration of trade experience and capitals from the outside.

The lag in economic development of the Don Army in comparison with neighbor regions became one of the

causes of the following change: since 1 January 1888 Rostov uyezd and Taganrog district passed on from jurisdiction of Ekaterinoslav province to the Region of the Don Army, becoming okrugs of the latter. These okrugs were productive and trade leaders and affected economic development of the Region of the Don Army positively.

Development of Rostov-on-Don as the trade centre in the XIX century were in many respects caused not only by favorable geographic and transport conditions, but also, last but not least, by the fact that being the part of Rostov uyezd of Ekaterinoslav province, this city was not faced with institutional trade restrictions which took place in the Region of the Don Army.

The main commodities traded by Rostov-on-Don in the middle of the XIX century, were the following ones: horned cattle, horses, bread, manufactured goods imported from Moscow and Kharkov, groceries imported from Odessa, Moscow, Kharkov, and Taganrog, Crimean salt, which transported through Rostov to the inland provinces of Russia, very large quantity of fish, marketed to Moscow, Kharkov, Voronezh, Little Russia and Western provinces, numerous goods of the Volga and the Kama, metals, timber, resin, flour, cereals, other items, and, finally, the Caucasian goods: bread, wool, suet, leather, linseed and other ones. Trade expansion of Rostov-on-Don was especially promoted by its famous trade fairs [„yarmarki”] getting All-Russian popularity in the 1840s and the 1850s (Ilyin 1909 – 1910, 67 – 68).

However, in the end of the XIX century turnover of such fairs started gradually to fall. The development of railway and steamship services, universal spread of telegraph, and an improvement of postal service can be treated as the causes of trade fall at big Russian fairs, in general, and at Rostov fairs, in particular. The important reason for fair trade in Rostov-on-Don was a practical lack of financial institutions and, consequently, absence of the Rostov merchants’ access to credit.

After Crimean war in the 1860s and 1870s Rostov-on-Don became the main city centre of trade between near-river towns of the Novorossisk region. Wheat and linseed exported from Rostov-on-Don abroad in very large amounts were considered in those times as the main items of trade turnover of Rostov port.

Up to 1863 Rostov did not have officially established bank and only in this year the first official credit institution in Rostov had emerged. This institution is the City Public Bank. An office of the State Bank was really opened one year earlier in 1862, but this one did not deal with crediting on the security. The second – according to time of establishment – officially established credit institution in Rostov-on-Don, namely, the Society of Mutual Credit, was opened in 1867. In the same year charter of Rostov Exchange was approved. However it began to function only since 1885, when there was an emergence of „exchange committee” attached to this institution, and

up to this year it existed only nominally. In 1872 in Rostov-on-Don Committee of trade and manufactories had emerged. All these financial institutions contributed to an expansion of Rostov trade (Ilyin 1909 – 1910, 69 – 71).

However economic development of Rostov-on-Don was rather an exception from the general tendencies of the Don Region economic evolution. It is necessary to note that many merchants and manufacturers bringing glory to Rostov-on-Don as the economic centre, were of trade Cossacks origin, such as very famous in Rostov-on-Don entrepreneurs Paramonovs.

Apartness of the Don region from nonresidents inevitably led to social sclerosis, i. e. devolution of the special interest groups and supported by them institutions and customs of economic activity.¹⁰ Economic history of the Region of the Don Army is an additional confirmation of the following fact: stable and protected from external intervention special interest groups inevitably generate a domination of inefficient institutions. In the end, it produces economic decline, a decrease in incomes and technological backwardness of the economy.

During the long period of time nonresidents could not independently trade within the Region of the Don Army. Only since 1862 nonresidents were granted a right on temporary trade within the Don Region, but obligatory payment was 10% more than obligatory State and local dues directed at equipping town settlements of Novocherkassk and okrug Cossack villages with up-to-date services and utilities. However, status uncertainty and legal „unprotectedness” of nonresident traders encouraged them to export accumulated capital beyond the bounds of the Don Region. Therefore, up to the XX century there was an absence of the large trade nonresident-owned firms with trade turnover based on „correct” but not predatory principles (Savelyev 1904, 58).

Among the Cossacks the following opinion was widely current: nonresident, „coming from the outside” traders, „dilute” way of their trade as well as way of their life, and, voluntarily or not, encroach upon their privileges. The Cossacks did not want share these privileges with other classes, all the more with newcomers from the outside. Such opinions were reflected also in the legislation of the Don Army. It is a system of privileges that restrained the Cossacks trade entry into the big market, and also hampered a penetration of trade

experience from the outside (however strange it is). No wonder that institutional regulation of trade by nonresidents was mainly prohibitive (Buslenko 1996, 29)

Backwardness of trade in the Don Region, uncertainty and relative „scantiness” of nonresidents rights led to the following phenomenon. As soon as in 1868 nonresidents were allowed to buy real estate and engage in trade, a lot of opportunism-oriented merchants moved to this region. Cheating, false measure and selling of inferior goods at a high price became ordinary phenomena. Correspondingly, nonresident traders were not held in respect from the direction of the Cossacks; moreover, the Cossacks treated them with undisguised disdain, malice and distrust (Savelyev 1904, 59).

In contrast to the Russian peasant communes, the Cossack communes were practically not reformed up to 1917. Opponents of the Cossack communes reform argued that it would lead to an abolishment of the Cossacks as the class [„raskazachivanie”], and that the Cossacks have not habit and propensity to be engaged in individual private business activity. However, as was fairly noted in 1916 in the report of provincial deputy of the Don Army M. V. Sarinov: „The practice of attaching importance to the Cossack communes is useless. A material prosperity and contentment rather than commune is the first and main foundation of the Cossacks class. ... The power of commune suppresses private initiative and enterprise and, surely, impedes improvement of agrarian equipment”.¹¹ In the Cossack communes as well as in the peasant ones the main restriction was mutual responsibility. It was necessity of independent provision of Cossacks munition for military operations that the very main cause of conservation of communes which were responsible for due and timely supply with munition.

Moreover, in 1916 it was noted that parcels of land which are in inherited use by the Cossacks (such parcels were mainly utilized as various kinds of gardens) differed strikingly from other parcels: they were well-groomed and characterized by application of improved methods of agriculture and growing of more „progressive” crops.¹² However, the decree of the Nobles Assembly according to which the practice of financial provision of the Cossacks munition at the expense of treasury, and, at impossibility of it, at the expense of the Army, was recognized as adverse, was passed only in 1916 and practically not realized.¹³

¹⁰ See Olson M. Vozvyshenie i upadok narodov. Ekonomicheskyy rost, stagflyatsiya and sotsialny skleroz. Novosibirsk. 1998; Olson M. Jr. The Devolution of the Nordic and Teutonic Economies // American Economic Review. May. 1995. Vol. 85. No. 2. Papers and Proceedings of the Hundredth and Seventh Annual Meeting of the American Economic Association. Washington. DC. January 6 – 8. 1995.

¹¹ Doklad oblastnogo deputata Voyska Donskogo M. V. Sarinova Ocherednomu oblastnomu Voyska Donskogo sobraniyu dvoryanstva „O zhelatel'nosti provedeniya v zhizn' nekotorykh meropriyatiy k podnyatuyu material'nogo blagosostoyaniya kazakov” / GARO. F. 304. Op. 2. D. 486. L. 108.

¹² Op. cit. / GARO. F. 304. Op. 2. D. 86. L. 105 – 109. Op. 6. D. 255. L. 1 – 2.

¹³ Postanovlenie Ocherednogo oblasti Voyska Donskogo Sobraniya dvoryanstva / GARO. Op. 6. D. 255. L. 1 – 2.

Conservation of communes and common use of land among the Cossacks up to 1917 did not contribute to an implantation of both technologically and institutionally progressive innovations in the agrarian sector. Formally in the Cossack communes equal rights to land were proclaimed. Each seventeen aged Cossack had right to take parcel whose area amounted to 30 dessiatinas of „convenient” land.¹⁴ The average parcel of land of a person released from the serfdom [„krepostnoe pravo”] was equal only to 3.5 dessiatinas. Nevertheless, peasants developed more intensive branches of plant growing and cattle-breeding than Cossacks. Such practice allowed them to receive more gross output by use of lesser parcel of land.¹⁵

Cossacks were outstanding warriors which allowed developing, preserving and protecting Southern frontiers of Russia. However, in comparison with other categories of population, Cossacks were in general less successful entrepreneurs and organizers of production activity. It can be explained partly by less efficient institutions, and also by the fact that both productive and entrepreneurial activity was not major one for the Cossacks and during the long period of time frankly prohibited (for them) (Larionov 2007). Nevertheless, it is necessary to note that there were many examples of productive and trade activity of the Cossacks.¹⁶

The features of the institutional structure of the Region of The Don Army allowed for the Cossacks some economic privileges. For example, freight transportation along Don within the bounds of the Don Army was actually monopolized by the Cossacks of near-Don villages. The fact is the following: up to a liquidation of isolation of the Army territory in the end of the 1860s ships owned by people not belonged to the „army classes” could not landed within the bounds of the Don Army.¹⁷

It can be concluded that, in the end, various economic privileges negatively affected production and entrepreneurship among the groups which had access to them. The economic activity (including entrepreneurship) of the Cossacks in comparison with the Russians which were not Cossacks can be the striking example. Different levels of economic efficiency of the different groups of people in the Don Region were determined mainly by diverse institutional conditions which regulated economic processes within the framework of different „communities”.

In the Don Region during all the XIX century there was no indeed development of reprocessing of agricultural

production. It affected development of agrarian entrepreneurship negatively. For example, there was an abundance of wool and other products of cattle-breeding, but any factories were absent. Moreover, there was a lack of any factories suitable for reprocessing of local products except two tallow-melting mills in Novocherkassk, vodka distillery, two breweries and three brick-works (Savelyev 1904, 33).

At present time in the Don Region there are attempts to revive culture and customs of the Cossacks, including their entrepreneurial traditions. It is here important to take into account not only positive aspects, but also negative experience of institutional (both formal and informal) regulation of economic relations. An understanding of such relations can be provided by an analysis of history of agrarian and trade entrepreneurship with use of theoretical instruments of Neo-Evolutionary Economics. The relevant explanation of the happened processes is necessary to grasp evolution of modern economic institutions.

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¹⁴ Krestyanstvo Severnogo Kavkaza i Dona v period kapitalizma. Rostov-on-Don. Izdatel’stvo Rostovskogo universiteta. 1990. P. 82.

¹⁵ Ibid. S. 85.

¹⁶ Don i Severny Kavkaz v XVI – pervoy polovine XIX veka. Torgovye kazaki na Donu / Istoriya Dona i Severnogo Kavkaza s drevneyshikh vremyon do 1917 goda (http://grants.rsu.ru/osi/Don_NC/XVI-XIXbeg/Vod_trans.htm)

¹⁷ See examples of successful entrepreneurial activity of Cossacks and also cases of institutional constraints of the Cossacks entrepreneurship in: Torgovo-promyshlennoe obshchestvo Voyskovogo kazachyego obshchestva „Vsevelikoe voysko Donskoe” (<http://www.tpovvd.ru/3.htm>)

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- Вольчик В. В. Земля втрачених можливостей: інституційна історія Донського аграрного і торгового підприємництва**
- Статтю присвячено дослідженням інститутів аграрного і торгового підприємництва Донського регіону в XIX – початку XX ст. Выдносно неефективність економічного розвитку Донського регіону пов'язують з архаїчними інститутами регулювання: військового управління, власності, підприємництва. Проведено аналіз історичних особливостей і причини тривалого стабільного існування субоптимальних інститутів.
- Ключові слова:* інституційна економіка, субоптимальні інститути, підприємництво, козацтво, Донський регіон.
- Вольчик В. В. Земля утраченных возможностей: институциональная история Донского аграрного и торгового предпринимательства**
- Статья посвящена исследованию институтов аграрного и торгового предпринимательства донского региона в XIX – начале XX в. Сравнительная неэффективность экономического развития донского региона связывается с архаичными институтами регулирования: военного управления, собственности, предпринимательства. Анализируются исторические особенности и причины длительного стабильного существования субоптимальных институтов.
- Ключевые слова:* институциональная экономика, субоптимальные институты, предпринимательство, казачество, Донской регион.
- Volchik V. V. The Land of Lost Opportunities: an Institutional History of the Don Agrarian and Trade Entrepreneurship**
- The article is devoted to the research of agrarian and trade entrepreneurship institutions of Don Region in the XIX century – beginning of the XX centuries. Relative inefficiency of Don Region economic development is connected with archaic regulating institutions of: military command, property and entrepreneurship. Historical peculiarities and causes of long stable existence of suboptimal institutions are analyzed in the article.
- Key words:* institutional economics, suboptimal institutions, entrepreneurship, the Cossacks, Don Region.

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