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The Post-Soviet Russian Economic System:  
An Industrial Feudalism?

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## The Post-Soviet Russian Economic System: An Industrial Feudalism?

### Abstract

In fifteen years, Russia has changed thoroughly. But what actually is the outcome so far of Russia's change? In this paper the leading US expert on the Russian economy argues that far from being a well-defined market economy, Russia is best characterised as an industrial feudalism with many peculiarities absent from the rest of the (non-post-Soviet) modern world. The author further argues that it can take a very long time before the proper institutions are place so that a modern market economy could develop.

**Key words:** Russia, economic systems, fiscal federalism

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## 1 Introduction

The economic system of Russia at the close of the 20th century is a difficult, perhaps even impossible, object to pin down. Russia has been undergoing wrenching transformations in all spheres for about a decade, beginning with Gorbachev's radical "reform" of Perestroika and moving through the various phases of the Yeltsin "transition to a market economy." Yet the process is hardly finished, as witnessed by the multiple financial, political and economic crises of 1998, despite some assertions that Russia now has an, albeit imperfect, "market economy."<sup>1</sup> The transformations to date clearly seem to have eliminated the Soviet "command economy" as the operational system, but it also seems to me that they have not (yet?) succeeded in creating a coherent market-based economic system. What is evolving appears to be neither a modern market economy, of whatever variant, nor a continuation of its modern challenger, the bureaucratically managed Soviet-type economy. Indeed, in many of its structural and operational characteristics it seems to be recreating the economic system of an earlier, pre-industrial, era – medieval feudalism.<sup>2</sup>

Any economic system is embedded in a political and social historical framework, rendering each manifestation of that "system" in some sense unique. But it is still analytically possible to find a number of key characteristics that appear to be common across all (or almost all) such manifestations. This is true of both the modern market economies, ranging from the Anglo-American model through the East Asian capitalism to the social market economies of Europe, and of the Soviet-type command economies that comprised the primary alternative to market capitalism.<sup>3</sup> Yet the feudal system, as typically defined and used for comparative purposes, is tightly tied to the technology of pre-modern agriculture, and the type of socio-political system that technology could support. Indeed the relationship is so tight that an agricultural basis is sometimes taken to be an essential characteristic of a feudal system.<sup>4</sup>

The Soviet Union clearly bequeathed to Russia a very different level of technology, one heavily, indeed hyper-, industrialized with pockets at the front edge of world technology.<sup>5</sup>

Yet I want to argue that the way that technology has come to be organized and used has formed a systemic structure that is in many ways reminiscent of a feudal system, recreating albeit imperfectly many of the key characteristics of the European feudal way of organizing economic activity. This can be seen in the principal elements of the social and political structure in which the economy is embedded, as well as in key institutions and characteristics of the economy itself and in the way it functions in the wake of the collapse of the Soviet Empire.

Thus I would like to suggest that we are seeing the development of a new variant of a traditional economic system – an "Industrial Feudalism." This system draws on many of the political, social and economic characteristics of the Soviet Union as modified by a radical disintegration and decentralization of political controls and economic activity characteristic of a post-imperial feudal structure. It arose from the Soviet system's organic response to, its transmutation under, radical reform measures aimed at creating the basis for a modern market economy. The incompleteness of such reforms has instead generated a system that is incoherent as a market economy, yet encompasses a substantial role for numerous markets under the control/guidance of localized power hierarchies – a new industrial feudalism.

## 2 The characteristics of a feudal economy<sup>6</sup>

Feudalism was far more than a way of organizing economic activity. It provided a comprehensive structure to all aspects of life – social, political and economic. Its central institution was perhaps the Catholic Church as the source of rules and legitimacy, the generalized inte-

grator of legitimate interests, and the carrier of civilization following the collapse of the Roman Empire. It validated the hierarchical social order and the legitimacy of rulers and commitments between groups and individuals. It provided meaning and order in the face of the pervasive violence and uncertainty that followed on the destruction of civilization after the fall of the empire. Thus the church was an important political and social institution, and an economic organ involved in production, allocation and redistribution of income and product. This highlights an important characteristic of feudalism – that economic, social and political institutions and roles were not sharply differentiated as in more modern systems.

Another essential defining characteristic of feudalism was the strongly hierarchical structure of society, a hierarchical division of labor based on the importance of the role fulfilled. This structure was built on a basic division between an upper, warrior and administrative class and a supporting, laboring class primarily employed in basic agriculture.<sup>7</sup> It also rested on personal allegiance and patronage, ties of trust and reciprocity, and the control of land, the essential non-human factor of production. Personal loyalty, supported by a sworn oath with reciprocal responsibilities, maintained a hierarchical chain in which superiors held juridical and economic rights and the responsibility to provide justice, protection and other public goods to their subordinates. Thus there was no separation of public and private roles and incomes among the nobility, particularly near or at the top of the formal hierarchy, and property and power were closely intertwined. Rights and privileges were granted by superiors for service, and incomes and social privilege were highly correlated with level within the hierarchy. Wealth derived from the right and ability to control the use and product of land, the primary capital asset of pre-modern agriculture.<sup>8</sup>

Land, like labor, was not fully marketable in the feudal system; factor markets were undeveloped to nonexistent. Peasant (*villein*) labor was tied to the land and retained certain rights to its use. Work rules and opportunities, and land use rights, were granted by the local superior lord, and could only be traded with his permission, although he could not arbitrarily revoke traditional rights and uses. This points to a further characteristic, the “conditional” nature of land ownership and property rights in general; traditional rights and privileges created many effective stakeholders who could block changes in patterns of usage.<sup>9</sup> Land was “socially owned” (God’s) and entrusted to the monarch and the Church, with its operational control, through land tenure, granted to nobility in return for service to God and King. This land tenure was accompanied by (in principle delegated, if sometimes siezed by force) legal, fiscal and police powers enabling the fulfillment of social responsibilities.

Thus the feudal system was characterized by a substantial decentralization of governance and operational control. This has been called the “parcelization of sovereignty” [Anderson (1974)] as the functions of the sovereign state were “... disintegrated in a vertical allocation downwards ...” with overlapping and contradictory zones of responsibility and no effective ultimate center of competence. This included the localization of the maintenance of justice (manor and town courts) and horizontal ties of reciprocity, enforced when necessary with violence. This arrogation by the nobility of the legitimate use of force rendered lower strata dependent both juridically and economically. The “parcelization of sovereignty” also involved the extension of “immunities” to the nobility, securing their rights and cementing the decentralization in place. Thus the polity was dominated by the landlord class, loosely integrated in a criss-cross pattern of competing networks of clients, leading to acute problems of coordination, and hence crises of order, and recurrent and apparently anarchic violence.<sup>10</sup>

Agricultural production was the primary source of income and wealth, and the manor – the central economic institution. The manor, with its subordinate villages, was the primary production unit, although primitive manufacturing and commerce were centered in independent corporative towns. The manor was largely self-contained, managed by the rent-receiver, and interacted economically with other producing units only marginally through primitive markets. It operated to produce a steady surplus that could be extracted to support the higher levels of the social/political hierarchy, often through “tax farming” by superior lords.

This rent/surplus initially was extracted largely “in kind,” through labor services or shares of the product, as the early feudal economy was largely demonetized with only limited use of small coin among the peasantry. Money was generally used for large wealth (especially land) transfers, for commerce between and in towns, and for payments of taxes, fees and fines. Its use gradually increased as the nobility found it easier and more lucrative to avoid income risk by “farming out” the economic activities of the manor for fixed monetary payments.<sup>11</sup> Thus money was increasingly (as the feudal economy developed) used for the transfer of surplus from the peasantry through the lower to the higher nobility, although even here obligations were often discharged “in kind.”

A further distinguishing characteristic of feudalism as a system lies in the limited role of “economic” motivations for economic activity. Profit or wealth maximization was far less important than prestige and social obligation, although prestige and land ‘ownership,’ the primary basis of wealth, were highly correlated. This could be seen in the savings behavior of manors which tended to splurge in good times, rather than accumulating wealth, while cutting drastically into consumption in order to maintain capacity in bad times.<sup>12</sup> This behavior was further supported by the tendency of superiors to confiscate excess surplus, the ability of the crown to debase the currency, and by the lack of savings instruments and markets. Indeed, most markets were primitive and local, with no general integration except with respect to tradeable luxury goods in which urban merchants specialized.<sup>13</sup> Where markets existed, they were subject to tight guild regulation and local protection from outside competition. Where trade in “cash products” (spices, English wool, cloth, tin, lead, etc.) developed, it was rapidly subject to strict regulation by the crown, continuing the arbitrary extraction of surplus by the top of the medieval hierarchy. Local peasant markets based on household production, however, remained relatively free of interference, and slowly grew in importance and depth through growing manor and church participation, even providing some competition to the regulated guild markets.

Thus we might summarize a number of the defining characteristics of a feudal economy as follows:

- Traditional/inherited legitimacy, giving control/authority over a personal domain;
- Multiple decentralized, hierarchical structures of information and authority, including juridical (the interpretation and enforcement of laws);
- Weak center, with strong local authorities, each exercising authority over limited domains;
- Personalized authority and discretion, limited only by power of superiors and some traditional constraints;
- Traditional patterns of activity, coordination and control through overlapping networks of fealty and obligation;<sup>14</sup>
- Markets at the “margins,” regulated and/or monopolized where possible by the local authorities;
- Diffuse, traditionally circumscribed property and contract rights;<sup>15</sup>
- Power based on legitimacy, the strength of personal networks, and the ability to mobilize a surplus of both wealth and manpower from one’s domain.

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Most of these characteristics seem to be developing, without the foundation in agriculture and the restraining influence of a Church and its moral code, in the post-Soviet Russian economy.

### 3 Economic system of Russia

#### 3.1 Changes and continuities

The evolving economic system of Russia is dramatically different from that of the Soviet Union in a number of essential ways.<sup>16</sup> Perhaps the most significant change has been the near complete dismantling of the central bureaucratic apparatus and its subordinate hierarchical structures for the complete control of the economy. This process has been accompanied by a thorough “destatization” of economic organizations and operations, decentralization of economic authority and control, liberalization of prices and activities of economic agents, and initial monetization of most economic activity and interaction. In the collapse of Soviet institutions, most assets, both economic and political, were “privatized” reuniting operational control and cash flow rights.<sup>17</sup> As a result there was an apparent flowering of new economic entities and activities, many however only nominally different from a Soviet predecessor, and a continuing diminution of levels of activity in entities inherited from the Soviet period. Among the new entities is a small but growing set of successfully restructured and new business operations, supporting a new middle class of business and technical professionals.<sup>18</sup>

These radical changes opened the way, and created a need, for new financial institutions and instruments for the intermediation of transactions and the management of newly monetized wealth. And all these changes, in turn, required new governing and regulatory institutions to replace the destroyed Soviet structures as well as to perform functions that didn’t exist in the command economy. Thus a new constitution has provided for a leading Presidential structure with a bi-cameral legislature, a popularly elected lower house, the Duma, and an upper Federation Council made up of regional leaders, and numerous quasi-independent regulatory and administrative bodies.<sup>19</sup> And a new set of laws and presidential decrees, including new criminal and civil codes have been promulgated to provide the legal framework for a more decentralized, substantially privately owned and operated, and hopefully market-based, economy.<sup>20</sup>

But there is also much that remains unchanged, or only superficially changed, after this decade of “reforms.” Many of the old subhierarchies of the Soviet administrative economic structure remain in place, if often with new organizational names. For example, Gazprom, Roskhleb, and Roskontrakt merely replaced Ministerial organs with similar functions, most of the larger banks are successors to, or spin-offs from, the five Soviet Spetsbanki, and most intermediate product and wholesale trade remains monopolized by the offshoots of Soviet internal trade organs. The major industrial producers such as Uralmash, Magnitka, Norilsk Nickel, Novolipetsk Metallurgical, etc., remain in place as all-encompassing socio-political and economic structures dominating their regions. Further, regional and local administrations have seized powers of regulation and control no longer exercised by central organs in the attempt to maintain inherited economic operations and “protect” the local population, and themselves in particular, from economic change. This has preserved both the lower administrative and economic structures of the hierarchical Soviet system, and the power and influence of those who manage them. Thus the old political elites, and enterprise and farm managements, have largely succeeded in entrenching themselves in both “new” and surviving economic and political organizations, where they have been joined by a small group of new elite that was able to seize wealth and control of assets in the early ‘wild’ period of 1989-1993.<sup>21</sup>



Together with the old elites, old Soviet patterns of behavior and interaction have survived. In the struggle for survival, industrial enterprises rely on traditional partners and trade in customary products through networks of interaction that have survived from the Soviet era. Much of this trade is in “soft goods,” unsalable in open markets at a price above cost, yet usable by the obsolete technologies built into these Soviet enterprises. Hence this trade is to a large extent in barter and non-monetary terms, returning to largely demonetized Soviet interaction.<sup>22</sup> Soviet behaviors survive in the paternalistic, control oriented, and self-serving attitude of the industrial elite; prestige, power and social obligation motivate enterprise management, rather than the pursuit of the creation of economic value (profit).<sup>23</sup> They also survive in the attitudes of local and regional governments to new initiatives, inherently disruptive of existing order, and “unauthorized” activities. Licensing and regulatory restrictions stifle new business initiatives, unless initiated by an elite ‘insider,’ and existing small and medium business is looked on as a source of continuing “rents” to be extracted through micro-regulation of activity, multiple fees, and creative taxation by local and regional elites.<sup>24</sup> Finally, there is the all-too-Soviet attitude that “everything is allowed” to sufficiently important people, and if you are not “important” then anything can be done to you (‘bespredel’!).

There are a number of other characteristics of the Russian reforms and the current economic situation that are substantially dysfunctional from the perspective of creating a normally functioning market economy. There is a general lack of uniform, transparent and enforceable legal norms, and effective juridical institutions to enforce them, rendering contracts and their enforcement questionable.<sup>25</sup> In particular, property rights are often ill-defined, involving diffuse claims of numerous stakeholders, and are unenforced (unenforceable) except by private means.

This is reflective of a general collapse of essential state functions, in particular the regular provision of social services and public goods, in part from their “privatization.” The provision of order, the enforcement of law and contract, and the provision of general public goods have been made subject to the discretion of agents who primarily pursue their private interests through the exercise of state functions and powers. Thus these functions, as well as the interpretation and enforcement of judicial norms and processes and the exercise of police power and use of force, have been arrogated by surviving subhierarchies and new “extra-legal” formations, sometimes collectively called the “mafia’s.”<sup>26</sup> With this comes the use of the tax service at all levels as a means of control and surplus extraction, rather than as a transparent source for financing public goods. Further, resources and funds are allocated and spent largely at the discretion of industrial, agricultural, and local/regional bosses (“lords” in medieval parlance). These bosses typically exhibit behavioral patterns, mentioned above, that are destructive of the private property-based “equivalence of exchange” so essential to the proper functioning of markets. Finally, we see the norm of “non-payment” practiced by both large firms and governments at all levels; money is power, is scarce, and is only to be given up when there is no alternative. Only those without power must always pay, as only they can be deprived, or punished, for not paying.

### 3.2 Defining characteristics of the system

An economic system is defined by the key acting institutions (agents) in the system, the nature and bases of their decision making, including incentives and their relation to the means of production (property), and the mechanisms of coordination and interaction. These determine the kinds of outcomes that can be expected from the system.

### 3.2.1 Political agents in the economy

The leading institutions of the Russian economic system are largely political, although social, political and economic roles and functions are not clearly separated/distinguished in practice. There is a tendency at all levels to look to governments, with their ability to command resource flows, for direction, support and the solution of economic problems. And there is a tendency for governments to look to business (industrial, commercial and financial) organizations for access to the resources needed to maintain their power and control. Thus there seems to have developed a symbiosis, particularly at the regional and local levels between governments and important businesses that goes well beyond what one would see were relations intermediated by law and law-structured markets.<sup>27</sup> This symbiosis is particularly facilitated by the fact that many of the same people who had been more junior in the same Soviet structures (nomenklatura) have now moved up to controlling positions while maintaining their old contacts.

This has created political-industrial-commercial networks with a loose hierarchical structure subordinate to the most important leader involved, be he politician or businessman.<sup>28</sup> Increasingly, local and regional governments take actions to “manage” the economy of their region, protecting enterprises from outside (and new inside) competition and supporting them directly so that they might continue to supply valuable social services and jobs for the population, and political favors and support to the elite of the region. This has involved control of much of the “privatization” process of industrial, agricultural and commercial enterprises, and in particular, control over the use and privatization of land and other real estate.<sup>29</sup> It is this control over real estate that provides the source of much of the wealth and power of local and regional governments.<sup>30</sup>

Further, we see the creative use and acceptance of payment and wage arrears, local script, vekseli, and tax offsets in order to maintain some semblance of operation of enterprises and public/social services. A growing number of regional and municipal governments have taken formal ownership of struggling enterprises, subsidizing them in return for equity and the appearance of “doing something” to maintain standards of living, and hence political support.<sup>31</sup> Many have imposed restrictions and licensing requirements on trade (movement of goods) across local/regional political boundaries, particularly in the wake of the financial crisis of August 1998.<sup>32</sup> And many regions have initiated their own credit, money and foreign economic policies, including efforts to attract foreign credit and investment and barter deals with other regions of the Russian Federation.<sup>33</sup>

Among the consequences of this politicization of economic decision making have been serious conflicts over economic policy, which is far more tightly tied to issues of political power and even survival than it would be in a properly functioning market economy.<sup>34</sup> We see this in the continuing conflict between the legislative and executive branches of the central government, and between the central executive organs and the regions, over issues of macroeconomic policy and of institutional/structural reform/change. Tax policy, revenue allocation, budgetary priorities, and even monetary policy have been disrupted by conflict among various governmental bodies. This has resulted in a plethora of conflicting laws, decrees and administrative rulings, and numerous frequently ignored judicial interventions, as each governmental body exercises what influence it can over those domains where it can.<sup>35</sup> Thus Federal law can be flouted even at the very center, where Moscow, for example, is ‘illegally’ maintaining passport restrictions on movement and residence. Local leaders can and do pick and choose what central laws to enforce and which to ignore, and impose their own legal and administrative frameworks, often borrowing from their Soviet past.<sup>36</sup> Thus there have arisen in every arena particularist zones of jurisdiction with overlapping boundaries and no universal center of competence or appeal, a true “parcelization of sovereignty.”

### 3.2.2 Dis-integration of the state

This reflects an ongoing disintegration of the state, albeit without the dissolution of the political union, the Russian Federation. Regional and local governments, and even large production organizations, have effectively arrogated to themselves many of the functions of the state. The provision of law, order and justice, the police function of the state, has become particular to regions, cities or even smaller collective entities, and has even to some extent been “privatized” to non-governmental (e.g. security firms) and/or criminal (e.g. “vory v zakone”) organizations. Thus, as Shlapentokh (1996) argues, every organization and activity, from the Federal level to street sellers, has to find a “Krysha” – a protective cover. Property is protected, and order maintained, more by organizational and private security forces than by the police, at least in their official capacity.<sup>37</sup> The amounts of revenue collected, public and private goods provided, and incomes generated in a region depend more on deals cut between local/regional business and political elites, than on any formal laws or market activity. And these arrangements also appear to be decisive for the revenue that the central government can collect through taxation.<sup>38</sup>

Only with respect to monetary policy, financial market regulation, and the maintenance of strategic and elite military forces does the central government seem to be effective. It, however, has ambitions that go far beyond this in pretending to support education, research, health, numerous social services, a large military establishment, and a large industrial manufacturing sector with substantial investment needs. Yet its tax system and economic base are unable to support these ambitions, leading both to the use of extraordinary measures to capture surplus, and to growing tax evasion and ‘demonetization’ of any produced surpluses, and the devolution of responsibilities and objectives to lower governmental levels and to large enterprises.<sup>39</sup> This only strengthens the social and political autonomy of these entities, further dividing sovereignty and weakening the state. Regional and local governments regularly use assigned Federal funds, when they arrive, for purposes that they find more important than those for which the Federal government assigned them. Thus pension and social sector wage arrears payments apparently are often diverted to support “important” local industry or to pay for inputs such as electric energy and/or oil for the region.<sup>40</sup>

The disintegration of the state and the politicization of economic decision making are also reflected in the lack of clear separation between the public and private spheres. Corruption, defined as the use of public position and resources for private gain, is pervasive and ubiquitous, with official position exploited for immediate reward. Activities which generate a net positive cash flow or other surplus are treated as contributing to the private account, while those generating losses are treated as public, deserving of social support and subsidization. This is all the more the case when economic managers become political leaders, and politicians and governments become shareholders in businesses.

Further, non-economic objectives come to lie behind most economic decisions, as industrial firm and agricultural collective managements strive to maintain personal power, control, and prestige together with traditional social services and jobs, whatever the economic costs. Firms and farms thus remain self-contained social and political, as well as economic, organisms, much like the medieval manor. This situation is reinforced by the lack of effective property rights, undercutting any attempt to establish effective corporate governance or outside ownership. Property is viewed as power, prestige and guaranteed jobs, to be jealously guarded, rather than a tradeable source of wealth creation.<sup>41</sup> This attitude is reinforced by the rapacious, rent extracting, behavior of government agents at all levels, leading to non-transparent and extra-legal acquisition and use of property, and the resort to extra-legal enforcement and adjudication mechanisms. Such behaviors seem sufficiently common to be considered a defining characteristic of the Russian economic system.

### 3.2.3 Fragmentary market structure

These characteristics feed into, and are reinforced by, a further defining characteristic of the Russian economic system – a fragmentary market structure, reflecting more inherited relations than economic opportunity. Much, perhaps most, economic interaction remains traditionally structured, with markets appearing to work most and best in those areas where either Soviet market forms (consumer retailing and labor hiring), or no prior Soviet institutions (finance), operated. There are generally normally functioning markets for new financial instruments,<sup>42</sup> for simple products and commodities in retailing to final consumers, and for dealing with ‘strong’ outsiders, such as Western firms and trading organizations. Among the most highly developed are those for Western imported consumers’ goods, like industrial final products, and for exported commodities such as raw materials, basic metals and chemicals, and energy products/carriers. But for most other economic interactions market forms are a superficial add-on to relations otherwise determined.

Most intermediate product and interindustry transactions involve traditional, non-market exchange relations among pre-existing entities or their offspring in networks that are largely inherited from the Soviet past. This is particularly true of “markets” for critical inputs, such as domestic energy and transportation, and for important assets where “privatization” generally involved predetermined transfers to “friends” and “insiders” with only a fig leaf of an auction or market sale.<sup>43</sup> Transfers of “property” are negotiated with important agents, reflecting more the correlation of political power than any market forces, and are arbitrarily imposed, by force if necessary, in the “unimportant” and on “weak” outsiders. This is reflected in the high degree of corruption and involvement of criminal organizations in economic activity. The wholesaling and retailing of food products in particular is subject to extortion and monopolization by mafias and local political organs.<sup>44</sup>

Another related salient characteristic is the “re-demonetization” of economic activity and interaction outside of retailing, finance, and foreign trade.<sup>45</sup> This involves a general “flight from the ruble” in both savings (“dollarization”) and intermediation (barter), and in tax payments (“offsets”), particularly in the large enterprise sector. It derives from a high degree of uncertainty with respect to both economic and political policy, the lack of legal protections (“rule of law”) and property rights, the weaknesses and inefficiency of the banking system, and the rapacious nature of taxation. Demonetization is particularly driven by the governments’ Soviet-like use of banks as tax collectors and enforcers, giving economic agents a strong incentive to avoid the use of banks and money whenever possible. It also facilitates the maintenance of traditional (Soviet) networks and relations, as transactions can be arbitrarily and differently valued by different parties in the absence of a uniform currency measuring stick; it avoids the need for strict market “equivalence of value” in exchanges.

The Russian economic system is further characterized by the absence of effective factor markets. There is virtually no market for land or productive real estate, despite a constitutional right to such, as enabling legislation is locked up in political struggle.<sup>46</sup> While apartments and buildings can be bought and sold, and some land comes with the purchase of industrial plant, the purchase of land, and the conversion of non-industrial structures, as an input into new productive activity is generally not possible.

The capital market is also, although to a lesser extent, undeveloped. Investment capital is generally unavailable, as the budget is bankrupt, firms are unwilling to give up significant equity and control for outside investment, and the banking system is largely a mechanism for financing the state deficit through tax collection and the placement of government debt.<sup>47</sup> The banking system generally fails to provide real intermediation, and provides investment funding only in limited amounts and only to those firms in which the bank has acquired a substantial ownership stake. The stock market is also largely a facade, allowing exchange of potential revenue shares but generating no new real investment or change in real ownership con-

trol. The need to finance a large budget deficit while preventing massive inflation, together with political and economic uncertainties, the lack of property and other legal protections, and the possibilities for harboring savings and wealth in dollars and/or abroad have led to staggeringly high interest rates that would cut off investment even if capital market structures were in place. Finally, there is very little FDI due to uncertainties surrounding property rights, contract enforcement, and the legal and tax environment, as well as the negative impact of the August devaluation and default.<sup>48</sup>

Labor markets are similarly degenerate. While local labor markets are extremely free and flexible, the inherited Soviet industrial structure insures that local opportunities for labor redeployment are rather limited. Labor, while formally free to move, is tied to its (inherited) place of work by social services, including housing and medical care, provided by the enterprise, locally enforced residency and registration requirements, and growing wage arrears. This tie is reinforced by the lack of any other, generalized social support mechanisms. Thus the labor market is localized, revolving around second jobs (“fiddling”), self-employment, and criminal activity.

The weakness of these critical factor markets is one of the primary reasons, together with the predatory behavior of political and criminal (mafia) authorities, for the lack of new entrepreneurship and small business growth in Russia. New enterprise is either controlled, or fought, by such “authorities.”<sup>49</sup> Only if one has the right connections, is politically tied in, can one engage in new enterprise, in the “recombination of factors.” Where pre-existing and politically powerful institutions/enterprises operate, it is extremely difficult to enter unless one has the political clout to take control of those institutions. Thus we see most successful new enterprise in areas where there were no, or seriously underdeveloped, Soviet institutions – banking, finance, trade and services.

### 3.2.4 Market non-viability of economic structures

As a consequence of these systemic characteristics, the Russian economy has preserved a large part the distorted structure of capital, production, and interaction that it inherited from the Soviet economic system. This is true despite substantial shifts in relative sectoral price and output levels; manufacturing and processing industries, agriculture and construction have shrunk, while extractive industries, communications, trade, and services – in particular financial – have expanded, with parallel movements in prices exaggerating the changes. Indeed, much of the apparent change in the structure of industry was due solely to price changes; the relative shares of the energy and raw material industries in 1995 were little different from their share Soviet shares in 1990, when those are measured in world market (rather than Soviet internal) prices.<sup>50</sup> These structural changes were largely completed by the end of 1995, at which point the features of the new Russian economic system began to solidify. The result has been a structure of enterprises, capacities, and interactions that would not be viable in a market economic system; it is only sustainable as a “virtual economy” through the networks and behaviors discussed above.

The industrial base and network of interactions underlying the Russian economy was built over a period of more than 60 years in order to provide a specified bundle of goods and services deemed desirable by central planners and their subordinates in the industrial administrative hierarchy. While in the Soviet system much effort was expended to maintain input-output consistency and balance in providing and expanding this configuration of outputs, there was virtually no consideration of economic valuation, opportunity cost or scarcity rents in determining the structure and level of economic activity. Prices were largely only accounting conveniences, allowing aggregation for incentive, measurement and control purposes, and were not supposed to have an independent influence on economic decisions in the state sector.<sup>51</sup> Prices/valuations were further distorted by ideology and arbitrary priorities; land

and capital were virtually free, labor remunerated according to administrative priority categories generally independent of value produced, and inputs were priced to be low, often below even planned 'cost,' for priority sectors and users, and high for use in consumers' goods industries and other final uses. Economic activity and interaction took place by virtue of commands from superior organs, independent of any costs or benefits to the parties involved; losses measured in monetary terms were fully subsidized while gains/profits were confiscated into the budget.

Thus economic interaction in the state sector was effectively demonetized, and there was no need for any equivalence in exchange. Cost was not allowed to interfere with priorities and arbitrary costs could be recovered from arbitrary pricing to users, particularly those not enjoying a special priority. This led to hypertrophic development of the priority sectors of heavy, resource and military industry, and inevitable endemic waste and inefficiency in these industries. That inefficiency, the non-viability of most of these industrial structures, was inherited by Russian firms and became obvious in the wake of the liberalization of prices and trade in the early 1990's. Few of these firms have the technology or the organizational and administrative capability to survive in a competitive market environment, as few can produce output at a cost, now determined by market pricing of material inputs and factors, below what the market will pay for their product.

These enterprises have also inherited a social structure far different from that of a modern market-oriented enterprise. Soviet enterprises were complete, and relatively closed, social entities, encompassing the political, economic and social life of all employees. Large industrial enterprises provided virtually all social services and activities, including housing, education and medical services, recreational and leisure activities, a job and access to consumer goods and services, and political life through the Union and primary Party organization at the place of work.<sup>52</sup> As with most other administration in the Soviet Union, management was personalized, with higher management dealing with superior structures outside the firm and passing down objectives and generalized assignments, while "masters" among the workers organized and controlled the flow of production and other economic activity in the firm. The result was a tradition-bound, rather rigid and inflexible structure, capable of responding to planning priorities and changes in overall physical targets of its traditional activities and/or products, but not to new requirements of technology and inputs, or to changes in sources of inputs or users' requirements of its output. This vastly increased the difficulties that enterprises faced when the planning and control superstructure of the Soviet economy collapsed; they were largely incapable of dealing with the new, rapidly changing and radically uncertain economic environment.

These structural characteristics indicate that Russian enterprises, in order to become viable firms in a market economy, must undergo a radical restructuring, a massive change in technologies, capital base, market interactions, administrative structure and social relations within the firm. But precisely what changes are needed to make the firm viable cannot be known in advance, particularly as the entire economic system is undergoing massive transformation. Hence these changes must take place in the face of unprecedented uncertainty and the real risk of catastrophic failure, providing Russian enterprises with strong incentives to look for other ways to survive.

One of the predominant survival techniques has been the escape to the "virtual economy" discussed in Gaddy and Ickes (1998, 1999). This has allowed Russian enterprises to avoid most wrenching changes in internal structure, their interactions with other economic and political agents, and the nature of the economic activity pursued by the firm. The firm can survive as the center of life for its remaining employees, trading "soft goods" without the necessity of strict "equivalence of value," for the inputs necessary to maintain some semblance of productive activity, while absorbing subsidies in the form of tax offsets, the use of vekseli, and growing payments arrears.<sup>53</sup> The labor force that remains is tied to the enterprise by services still provided, by the ability to use unpaid wages to offset "overpriced" purchases

in enterprise shops, by the hope of eventually recovering wages in arrears, and by the lack of better alternatives outside the enterprise. Thus there has developed a hierarchical network of strong mutual dependence – among firms in the “virtual economy;” between firms and the local/regional governmental organs that allow arrears and offsets to be used; and between firms and their dependent employees.

### 3.3 Back to the future: industrial feudalism

These characteristics have a number of striking parallels in the medieval feudal economic system, even if the identification is far from exact. Despite dramatic differences in technologies and capabilities for communication, for information processing, and for control of economic activity, a feudal “parcelization of sovereignty,” devolution of economic activity to quasi-autarchy, and personalization of rule and interregional interaction seems to have taken hold. At the base of this system are industrial, agricultural and construction enterprises, whether privatized or not, regional and local governments, and some of the more important, as they are politically connected, new commercial and financial structures (FIG’s). Most of these organizations are legitimated by tradition, having been derived from Soviet economic/political entities or built on connections from that period, and many of the new commercial and financial structures have acquired the status of the industrial enterprises over which they have taken control.<sup>54</sup> In addition, new forms of legitimation have arisen through elections and the mass media, but these are tightly controlled by an elite derived largely from the Soviet nomenklatura. Like the blessing of the medieval church, elections seem increasing a legitimizing formalism, as manipulation by the leadership, together with its control of the media, remove the possibility of any change in power.<sup>55</sup>

As we have argued, the Russian economic system is characterized by weak central authority, with strong regional, local and industrial/financial leaderships, each exercising authority over particular, limited domains, although those domains are less territorially, and more functionally, defined.<sup>56</sup> As with the European feudal economies, there seem to be multiple, decentralized hierarchical structures exercising political, economic and juridical authority over their own domains. Personalized power is exercised through overlapping networks of personal ties and obligations, replicating to a large extent Soviet/traditional patterns of coordination and control. Markets and market relations, undoubtedly more important than in medieval Europe, seem predominant only in dealing with strong outsiders, e.g. foreign firms and markets, and in areas outside the core interests of the major institutions surviving from the Soviet era; even there, markets are locally regulated or monopolized where possible, often by informal, extralegal organizations. And, as under feudalism, property and contract rights are diffuse, circumscribed by Soviet “tradition,” and encumbered by conflicting claims of multiple stakeholders, rendering them unenforceable through regular legal channels. Hence there is, as in medieval Europe, very little investment beyond that required to maintain current, reduced levels of activity. Finally, the sources of political and economic power are localized and relational, unencumbered by moral or overarching institutional constraint.

In this light, the Presidency appears as a weak crown, surrounded by courtiers whose power and influence depend on their relation to the President and connections to, and/or control over, powerful other institutions. The upper house of the legislature, the Federation Council, appears as a chamber of regional “lords” interested in protecting their domains more than the integrity of the Russian state. The Duma, ineffective as a working legislature, is quite effective in representing its members’ outside collective corporate and private interests in areas where the state still has influence, and in prying favors out of the government as well as blocking changes (“reforms”) that might adversely affect those interests.

At the core of this economic system are agricultural districts with their large “collective” farm structures, some medium and large cities, and major enterprises (or FIG’s) that appear

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as the “manors” and “estates” on which the feudal economy is built. These largely self-contained socio-political production entities maintain themselves in the virtual economy through barter and network exchange, and through primitive production of food and primary goods and services by individuals (on private plots and in their homes) in small-scale economic activity, necessary to survival yet too unimportant to be controlled or shut down. This is a survival mode, capable of simple reproduction at current levels of activity, yet unable to invest or generate economic expansion.

Finally, there are some major companies, and regions with “reformist” policies, that fill the role of medieval towns in intermediating both among these entities and with the rest of the world, rather than the plethora of small flexible firms that one would expect in a market economy. Despite their substantial market activities and roles, these intermediaries must still fit into the economic and political networks of the Russian Federation as corporate entities, with personalized ties to the “lords and nobles” of the system.

#### 4 Conclusion: A new economic system?

The preceding discussion has attempted to make at least plausible the hypothesis that an economic system, different from the market economies observed elsewhere in the world, is evolving in Russia, one we have called “industrial feudalism.” Is this possible, or is the chaotic pattern of economic relations that we observe just a passing phase in the transition to a market economic system? To consider the Russian economy as reflecting a new, distinct type of system, we would have to see a self-sustaining configuration of institutions, behaviors and activities that are based on clearly different principles than those essential to the functioning of a market (or command) economy. There would have to be an internal coherence, a consistency in the way things hang together, that defies the logic of a market (or other) economic system. This would render the new configuration of institutions, relations and activities sufficiently viable to last for at least several generations.<sup>57</sup>

After only eight years since the collapse of the Soviet empire, it is clearly too early to know definitively whether we are seeing the birth of a qualitatively different economic system. Whatever economic system is evolving is still in formation, a response to the all-encompassing uncertainty and breakdown of the socio-political order that followed the disappearance of the Soviet Union. Above we have argued for a certain consistency of trends in the ensuing institutional vacuum, leading to the development of a feudal-like system, replicating certain behavioral and structural characteristics of medieval Europe. It is still unclear whether these trends and characteristics are sufficiently stable to constitute the basis for a new type of economic system. But they do seem inconsistent with the development, at least at this time, of a modern market economy.

We have argued above that the structure and functioning of the Russian economy are inconsistent with a market system, despite the fact that, as Aslund (1995) demonstrates, the command economy has been destroyed. Despite radical decentralization, the lack of ex-ante planning and coordination, and the absence of vertical integration and control of information, markets cannot play the role that they must in a true market economy. Essential institutions for the proper functioning of markets and market relations are lacking, including: transparent, uniformly enforced laws, rules and regulations; enforcement of property rights; and contractual commitment with third party enforcement. There is virtually no “complex market intermediation,” but rather networks based on personal connections and trust. The domain of impersonal, horizontal relations, characterizing much market interaction, is severely restricted, and there is a lack of “equivalence in exchange” that is reflected in the non-uniformity and “personalization” of prices, depending on the status of, and relationship between, the agents.



Factor markets are degenerated to nonexistent, and full market relations predominate only when dealing with foreigners and/or advanced/luxury products. Economic behavior is not oriented toward the creation of wealth and minimization of opportunity cost, but rather toward the redistribution of property, and the seizure of wealth for consumption. Survival and autarchy become primary objectives. Incentives derive largely from your “network” or “clan,” and stimulate supporting its organizations and leadership, not creating market value. Thus the system seems inimicable to the proper functioning of markets.

This, however, does not mean that a true market system won't develop in Russia. European feudalism indeed provided the foundation on which modern market economies developed. Yet that took many generations, indeed centuries, to occur through the appropriate evolution of political and economic institutions, abetted by technological changes allowing vast growth in productivity and hence the available social surplus. Arguably, a similar process in contemporary Russia should occur much more quickly; there are working models and highly productive modern technologies, and hence substantial opportunities for learning, in place. But whether that will occur quickly enough for the last seven years to be considered merely the beginning of a direct, if quite difficult, “transition to market” is questionable. Here I have tried to suggest that it may take longer, that Russia may have stumbled into a detour through an at least semi-stable new economic system – a type of feudalism built on the Soviet industrial structure. An optimist would argue that such a system cannot survive more than a couple of years. I am not so sure.

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## Notes

<sup>1</sup> One of the earliest and most prominent is in A. Aslund's (1995) monograph. For a more nuanced, if less systematic, discussion, see Sutela (1998).

<sup>2</sup> A sociologist, Vladimir Shlapentokh (1996) has recently drawn a similar conclusion with respect to political and social characteristics of contemporary Russia.

<sup>3</sup> Exploring such fundamental characteristics and how they vary across systems is the core of "comparative economic systems." See texts such as Gregory and Stuart (1985) or Angresano (1996). For a masterful exposition of the fundamental nature of Soviet-type socialist systems see Kornai (1992).

<sup>4</sup> See the review article of Pryor (1980) for a discussion of the tie between "feudalism" and agricultural economic systems.

<sup>5</sup> The general level of technology in use was actually quite low, relative to that of the developed capitalist economies of Europe, North America and Asia. See Amman and Cooper (1986).

<sup>6</sup> This section contains my interpretation of the European, and in particular English, feudal economy in the 11th through 14th centuries AD. It is derived from the discussion and analysis in Postan (1973, 1975), Pryor (1980), Andersen (1974), and Angresano (1996), Chapter 4. For an interesting attempt to model the economy of feudalism as a general equilibrium system, see Rader (1971).

<sup>7</sup> The clergy stood somewhat outside of this structure, performing an economic function in the legitimation of the social, political and economic order, and replicating within itself the two-layered social structure through the "high" and "low" clergy. There was also an intermediate layer of independent tradesmen and merchants, residing in self-governing and self-protecting corporative towns, who provided service support and intermediation to the basic feudal structure. See Postan (1975) and Angresano (1996), Chapter 4.

<sup>8</sup> In addition to the direct product of the lord's "demesne," incomes were derived from "rents" and "fines" for the exercise and transfer of use rights to the lord's land among subordinates, both noble and common, and from payments for lands and activities "farmed out" to subordinates. See Postan (1975), especially Chapters 6 and 10.

<sup>9</sup> For a fascinating discussion of the nature and exercise of, and limitations on, property rights by the free and villein peasantry, see Chapter 8 in Postan (1973).

<sup>10</sup> This characterization is in Verdery (1996), p. 208.

<sup>11</sup> See Chapter 2 in Postan (1973) and Chapter 6 in Postan (1975).

<sup>12</sup> This is noted in Pryor (1980), p. 62-3.

<sup>13</sup> See the discussion in Postan (1975), Chapter 12.

<sup>14</sup> The Roman, Germanic and "Dark Ages" roots of feudal patterns are discussed in Postan (1975), Chapters 1 and 2.

<sup>15</sup> Private contracting and enforcement, with sanction and support of the Church, had a firm foundation and long tradition in pre-medieval and medieval society, albeit subject to the rights and discretion of superiors. See Postan (1973), Chapters 8 and 13.

<sup>16</sup> For a summary of my understanding of the nature and essential characteristics of the Soviet economic system, see Ericson (1991).

<sup>17</sup> These achievements are chronicled in many places, including Aslund (1995), Boycko, Shleifer and Vishny (1995), OECD (1995), and Blasi, Kroumova and Kruse (1997). Shlapentokh (1996) emphasizes the negative aspects of all-encompassing "privatization," including the public sphere and governmental functions.

<sup>18</sup> See Harley Balzer (1998) for an analysis of the new Russian bourgeoisie.

<sup>19</sup> Among these new regulatory bodies were a new Securities and Exchange Commission, a Commission for Real Estate Validation, a State Anti-Monopoly Committee, and a State Committee for the Development and Support of Small Business. See OECD (1997), Annex IV, pp. 200-23.

<sup>20</sup> These institutions are outlined in Gregory and Stuart (1997) and in OECD (1997). It is worth noting that new Land and Tax Codes, both critical to defining the powers of, and limitations on, governmental and administrative organs, have yet to be enacted, and are indeed the subject of deep political struggle between the executive and legislative branches at the center and between regions and the center.

<sup>21</sup> These include the infamous “oligarchs,” such as Berezovsky, Potanin and Gusinsky, with their new financial/media structures. See Aleksandrov (1996), Kryshtanovskaya (1997), Goldman (1998), and Aikman (1998) and for partial listings and discussion. For a recent update, see G. Winestock, L. Bershidsky, “The Oligarchs: Who’s Up, Who’s Down,” *Moscow Times*, 12 January 1999.

The new elite arose from academic, criminal and Party circles by boldly taking advantage of opportunities, not always legal, that arose in the chaos created by Perestroika and the collapse of central authority and then of the Soviet Empire. These were largely opportunities for asset stripping and rent extraction through arbitrage against the irrational price system and the exploitation of special favors/licenses and subsidies from the marcescing state. Among the many sources telling these stories are Bunin (1994), Aslund (1995), Kranz (1997), and Solnik (1998).

<sup>22</sup> This is the foundation of the “virtual economy” indicated in the Karpov (1997) Report of the State Interdepartmental Balance Commission, and discussed in Gaddy and Ickes (1998, 1999). For an earlier analysis of this situation, see IET (1997).

<sup>23</sup> This point is made in Blasi, et. al. (1997), and is also clear from the enterprise survey work of Linz and Krueger (1998), Linz (1997), Hendley (1998), Hendley, et. al. (1997), Ickes, Murrell, and Ryterman (1996), and Ryterman and Weber (1996).

<sup>24</sup> See Frye and Shleifer (1997), Shleifer (1997), and Aslund (1997).

<sup>25</sup> This is illustrated in most of the articles in Sachs and Pistor (1997).

<sup>26</sup> This point is made in both Verdery (1996) and Shlapentokh (1996), and is again reflected in Sachs and Pistor (1997).

<sup>27</sup> Aslund (1998), p. 319, has called this “... a negotiated economy with ample privilege for large and powerful enterprises regardless of their economic efficiency.”

<sup>28</sup> Many of these are loosely called Financial-Industrial Groups (FIG’s), consisting of a network of related enterprises and their controlling or subordinate “pocket” bank(s). They include the financial empires of the so-called “oligarchs” [footnote 21 above]. For a clear discussion of the origin and varieties of FIG, see Johnson (1997).

<sup>29</sup> Moscow, in a singular defeat for Chubias and the State Privatization Program, was able to take control over Federal as well as regional and local privatization within the city, with the explicit support of President Yeltsin for his friend, political supporter, and successor as mayor of Moscow, Yuri Luzhkov.

<sup>30</sup> This point is well noted in Shleifer (1997).

<sup>31</sup> Among other examples, Belgorod has taken over its iron ore combine, Sverdlovsk has taken a stake in Alkar Aluminum, Krasnoyarsk has bought into the Krasnoyarsky Metallurgichesky Zavod, Kursk has taken equity in Mikhailovsky Iron Works, the Moscow city government is buying into the local automobile firm, Tataria has bought into KamAz and Tatneft Oil, and Samara into AvtoVaz. See *Izvestiia*, October nn, 1997. More recently, the *Moscow Times* has reported the St. Petersburg and Sverdlovsk, among other regions, are taking controlling interests in their leading regional banks, and Sverdlovsk is planning to take a 25% share in Nizhnii Tagil Metal in exchange for restructuring the company’s tax and wage arrears (RFE/RL Newslines, 4 November 1998). The *EWI Regional Report*, Vol. 4, has noted further takeovers in 1999 in Ul’ianovsk (#3), Krasnoyarsk (#4), Voronezh (#10), Moscow (#11, #14), Primorye (#13), Sverdlovsk (#14), and Chel’iabinsk (#15).

<sup>32</sup> In December, Krasnoyarsk and Kemerova regions joined Tatarstan, Altai, and the Volgograd region in introducing new restrictions on food trade and grain transportation (*Moscow Times*, 12/12/98). On earlier actions see S. Krayukhin, T. Zil’ber, “Regiony v bor’be s krizisom,” *Izvestiia*, 09/12/98.

<sup>33</sup> Moscow has been particularly active in wooing foreign investors, and cutting deals with other regions for the exchange of food or energy for manufactures. Other leaders have been Veliki Novgorod, Samara, the ‘autonomous’ Republics, such as Tatarstan and Sakha (Yakutia), and the industrialized regions of the Urals and western Siberia. Over a half dozen regions had issued Eurobonds, and another four had central permission to do so, when the August financial crisis struck. Among the earliest and largest borrowers was Tatarstan, which de-

faulted in November on \$100 million of debt; see J. Ingram, "Projects Halted in Tatar Republic," AP, 10 January 1999. Both Moscow and Nizhny-Novgorod are, in early 1999, also in technical default and renegotiation with creditors. See EWI Regional Report, Vol. 4, #13 and #17.

<sup>34</sup> Well functioning markets have a "separation property" which tends to localize the consequences of decisions, unentangling the fates of different economic agents.

<sup>35</sup> Evidence appears at least weekly in the Russian press. See, for example, RFE/RL Newsline, 4 and 7 September; 18 November; 9, 11 and 14 December, 1998. Indeed, the tax system is most reminiscent of medieval "tax farming," as noted in Aslund (1998), p. 321.

<sup>36</sup> As 1999 began, several "Subjects of the Federation" announced that they were abandoning jury trials to return to the administratively cheaper Soviet procedure (lay assessors). See the RFE/RL Newsline for 4 January 1999 on the Riazin announcement..

<sup>37</sup> The extent to which the use of force in business has become institutionalized is emphasized in Radaiev (1998).

<sup>38</sup> This point is clearly made in Ickes, Murrell and Ryterman (1997).

<sup>39</sup> Note here the Chubais "Extraordinary Commission" ["Cheka"] for tax collection in 1997-8, the Karpov (1997) Report, and A. Lebed's assertion, shortly after being elected governor of Krasnoyarsk in 1998, the he was ready to take over the financing of military ground forces in his province.

<sup>40</sup> The central government regularly releases lists of "naughty" regions, the most recent in an ITAR-TASS report of 8 December 1998 (RFE/RL Newsline, 9 December 1998).

<sup>41</sup> This is reflected in prevailing attitudes and behavior during privatization, discussed in Clarke, et. al. (1994), Blasi, et. al. (1997), and Hendley (1998).

<sup>42</sup> Westerners were impressed by the speed of development and apparent sophistication of new Russian financial markets and financiers in 1994-7. See, for example, C. Jones, "Russian Eyes are Smiling," *The Banker*, September 1995, pp. 18-27. Some of the shine has come off with the collapse of late 1998.

<sup>43</sup> This nature of the privatization is discussed in Blasi, et. al. (1997), Aslund (1995), Boicko, et. al. (1995), and Sutela (1998). It is much criticised in Russia, particularly by those who were "left out," and is noted as a defining systemic characteristic by Sutela.

<sup>44</sup> This involves efforts to "protect" local markets by blocking outside supply and by forbidding export by local producers. See the references in notes 31 and 32 above.

<sup>45</sup> Enterprise transactions in the Soviet Union were essentially demonetized, and that is again becoming the case in much of basic Russian industry. See Ickes, Murrell and Ryterman (1997) and Aslund (1998).

<sup>46</sup> The Duma again twice rejected a land code with presidential revisions on 23 December 1998, leaving Russia without enabling legislation for a land market. RFE/RL Newsline, 23 December 1998. A number of regions are attempting to impose their own "land codes" without enabling legislation from the center, e.g. Samara (EWI Regional Report, Vol 4 #13) and Perm (EWI Regional Report, Vol. 4, #11).

<sup>47</sup> See, for example, the discussion of the banking system in RECEP's Russian Economic Trends, 11 November 1998, or Sycheva and Mikhailov (1998).

<sup>48</sup> In particular, there was limited investment in the critical energy due to the failure of the Duma to approve a reasonable production sharing agreement, and pass enabling legislation, before mid-1999. See the discussion of FDI in RECEP's Russian Economic Trends, 11 March 1999.

<sup>49</sup> The best recent discussion of new small business in Russia is Aslund (1997). For evidence on the political problems of small business in Ul'ianovsk see the IEW Regional Report, Vol. 4, #3 and #10.

<sup>50</sup> The changes in industry are investigated in detail in Kuboniwa and Gavrilencov (1997) Chapter 4, while general sectoral and price changes are discussed in OECD (1995) Chapter 1, which also makes the point about the lack of significant change when Soviet structure is measured in world prices.

<sup>51</sup> Grossman (1961) is the classic statement of the nature of planning and valuation in a command economy. The argument is further developed in Ericson (1991) and (1997).

<sup>52</sup> See the case study of the Saratov Aviation Plant's struggle to survive in Hendley (1998), the work of British sociologist Simon Clarke and his collective, e.g. in Clarke, et. al. (1994), and the study of the fate of Soviet military industry by Gaddy (1996).

<sup>53</sup> This behavior is analyzed in the Gaddy-Ickes discussion paper (May, 1998).

<sup>54</sup> As Aslund (1998) notes, Menatep evolved from a bank to an industrial holding company, Rosprom, to an energy company based on Yukos. Similarly, Bank Rossiiskii Kredit owned a holding company in the metallurgical industry, and Oneximbank's owners hold the majority in Norilsk Nickel and in Sidanko. However, the August 1998 crisis weakened the banks in these holdings.

<sup>55</sup> Regional and city bosses are beginning to move to reduce or eliminate the authority of elected "inconvenient" subordinates in Nizhny-Novgorod, Rostov, Saratov, Voronezh, and Ul'ianovsk. See EWI Regional Report, Vol 4, ##12 and 14-16.

<sup>56</sup> Thus Gazprom, UES, or Lukoil might be considered single feudal domains, extraordinarily large "manors," integrating the political, social and economic life of their members.

<sup>57</sup> The Soviet economic system, the "command economy," clearly meets these criteria, even though it lasted only three generations (70 years). It took almost 15 years to take its full form, and as late as 1987 there was little indication that it would not last another three generations.



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