

Back to Private Ownership or On to Private Ownership?

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The longer Russia is unable to emerge from its transformational recession, the more researchers tend to focus on the consequences of the privatization campaign. The more numerous publications concerning privatization problems, the more pointed the discussions on these questions: How much did it fit the Russian reality? What is it that is necessary for an effective private ownership to take shape in Russia? What "rules of the game" must be created? There appear writings, both at home and elsewhere, whose authors increasingly often ask these questions.¹ Should we perhaps go back and deprivatize separate enterprises, subindustries, industries, or even entire economic sectors?² Indeed, what should be done in order at long last to set into motion the mechanism of private ownership, without which the genuine market cannot exist? That again brings us back to the traditional Russian questions: "Who is to blame?" and "What is to be done?"

Privatizing or Pillaging?

As is increasingly clear today, the Russian privatization was a logical result consequential on the decline of the Soviet-type administrative-command economy. It is no secret to anyone that in the USSR the economic mechanism trended in that direction long before the 1992-1995 privatization drive.

While the Soviet administrative-command system was at its zenith (1930s-1940s), the property rights were fully in the hanck of the top Party and economic leadership. Later, however, they increasingly "seeped down" to lower-level economic agents. Held as early as 1957, the USSR's economic reform noticeably undercut the positions of the central authorities locally and enhanced the economic role of the regions. The *sovmarkhozes* (literally, "Councils of People's Economy" in Russia's regions) were an important step forward on the path leading to the creation and strengthening of regional elites. Even though the 1965 reform took the economy back to the branch principle of management and subordinated the regions to the branch ministries, the latter underwent a marked change, with union-republican and republican ministries emerging alongside the all-Union ones.

The 1965 reform had an even greater effect at the microlevel. The economic innovations of those years—conversion of enterprises to cost-accounting, partial self-sufficiency, and self-financing—were attempts at bringing about an evolutionary change within the system of industrial property rights, when the decisive part of actual powers remained in the top and middle control echelons. It was then that the Soviet enterprises had their first taste of the market economy since the NEP times. By all means fair or foul they sought to get rid of money-losing output and to increase their profits by letting loose a creeping inflation as they modified their product range (including by making faked assortment shifts that affected only the name and price of a product, but not its quality). The reforms undertaken in the 1970s and the first half of the 1980s futilely attempted to remove this discrepancy between the planned and the commodity nature of the enterprises. But it cannot be asserted that the attempts were totally futile, because actually it was no longer the ministries but associations and major enterprises that by degrees emerged as the main economic

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Evolution of the Economic Mechanism in the USSR and Russia

Periods	Key Events	Main Economic Agents
Early 1940s-late 1950s: "the economy of the state"	1940-1941 management reform	People's Commissariats as elements of the Council of People's Commissars
Late 1950s-mid-1960s: "the economy of the regions"	1957 economic reform	Economic regions, sovnarkhozes
Mid-1960s-mid-1970s: "the economy of the branches"	1965 economic reform	Branch ministries
Mid-1970s-mid-1980s: "the economy of the sub-branches"	Industrial management reform of the years 1973 and 1979	Main directorates of ministries, all-Union industrial associations
Mid-1980s-1992: "the economy of major enterprises"	<i>Perestroika</i> : 1985-1990	Major enterprises, associations
1992-1993: "the economy of small ventures"	1991 privatization	Enterprises; small ventures that became separated from major enterprises
1993-1995: "the economy of physical persons"	Voucher and post-voucher privatization	Heads of enterprises and their divisions, physical persons

agents (See: Table 1).

Table 1

In this context, *perestroika* seems a logical result of the clash between the private and the public principles rather than a chance phenomenon. The "relative economic isolation" proved progressively less relative and the privatization of the first half of the 1990s attempted to make it absolute. Yet, in order to answer to what degree it became possible it is necessary to take a look at the social actors of the command economy privatization drama.

In order to understand the trend of the privatization processes, suffice it to recall the duality of the position of the Soviet *nomenklatura*, one dating back to the power-property institution that evolved in the pores of the so-called "Asiatic mode of production."³ We have provided a detailed characterization of that institution⁴ and therefore would like to emphasize here just two things.

First, the duality of power-property was not only in that the members of the Soviet *nomenklatura* were simultaneously the subordinates and the superiors. Unlike in the ordinary hierarchical structure, their chief characteristic was a non-differentiation of functions—Party and state, legislative and executive, administrative and judicial, and not infrequently civilian and military. Hence the special role of the different-level Party and economic *nomenklatura* in the social stratification of the Soviet society. Second, one ought not to infer from the foregoing that the command economy embraced the whole of society and just underwent evolution. A certain dualism of the planned and the market economy, on the one hand, and of the legal and the illegal economy, on the other, persisted through the entire history of the USSR (See: Table 2).

The Double Dualism of the Soviet Economy

	Command economy (re-distributive product exchange)	Market economy (market commodity exchange)
Legal economy	Planned economy	Kolkhoz markets
Illegal economy	"Clan-type socialism" — "Bureaucratic market"	Informal sector

Table 2

In fact, what was represented at "the highest and last stage of socialism" (to quote V. Naishul) was the private-and-state (*nomenklatura*) property in all its glory, because in reality its objects were managed by the branch and regional elites, which were in cahoots with the criminal world. Thus, the course of privatization was predetermined by the duality of the planned/commodity forms of economic management and that of the legal/illegal economies. With a certain degree of conditionality one may separate three main stages in the process of change affecting the system of property rights in post-Soviet Russia.

Stage 1: nomenklatura-style privatization (1987-1991). The actual pilfering of the state property occurred already within the framework of the Soviet institutional system of power-property. At stage one, the *nomenklatura* attempted to take for the basis the old "bureaucratic market," where the position of each participant was determined by his status within the social hierarchy or his administrative weight of sorts.⁵ At all levels of the declining centralized system, the *nomenklatura* was learning how to derive not only indirect but also direct money incomes from its position. That was accompanied by a transition from the combined state property (owned by the *nomenklatura* as a whole) to the individual state property owned by separate members of the *nomenklatura*. Yet another parallel process was a type of "multiplication of *nomenklatura* in the post-Soviet space."⁶

De-etatization assumed the form of spontaneous privatization expressed in the handover of property to separate enterprises (and hi reality to their directors) on the basis of the right of full economic management. As a result, the directors actually got the right of uncontrolled management of corporate financial flows, including the right of independent decision-making on how to use profits. They no longer had to coordinate their decisions with the formal property owner (except in cases involving the use of real estate). The key moment was the fact that the heads of state-owned enterprises were given extensive *rights* without bearing *responsibility* for the results of their activities. As a consequence of the weakening and subsequent actual disintegration of the centralized Party-economic vertical of management (which performed the functions of what is known today as the enforcement system), the *nomenklatura* property was increasingly converting into private bureaucratic property. Figuring prominently at early stages in the process was the so-called cooperative movement;⁷ and leased enterprises⁸ became prominent later.

It should be added that "creating cooperatives under the auspices of state-owned enterprise—swith one and the same management—was one of the key forms of 'spontaneous' privatization."⁹ It was in the shape of money transfers, speculation on price margins, handover of property on the basis of the full economic management right, paying of co-op shares from the assets of enterprises, etc. Interestingly, stints done by cooperatives were frequently included in the state plan of the founding enterprise.

Another trait in the transformation of power-property relations within the cooperatives themselves transpired in their organizational and legal structure. For example, the greater part of cooperatives operated as individual (family) private enterprises characterized by a strict management system, the nominal role of the cooperative members meeting, and an extensive use of hired labor (part-time workers and pluralists). Bigger cooperatives, despite their *de jure* organizational and legal form, gravitated towards collective forms approximating a closed joint-stock company or a limited liability company.

Yet in the process of evolution the cooperatives revealed their clear inability to meet their actual owners' needs for a new institutional production structure. First, this form of business organization is evolutionarily unstable for industry. And it was that tendency that stood behind the slump in the cooperative sector. The majority of existing cooperatives were then given organizational and legal forms that were more in conformity with the *de facto* existing power-property relations. Second, the cooperative form stood in the way of legalization of big fortunes. Nor did it permit one to completely formalize one's legal rights to own major industrial enterprises and associations or protect property from possible expropriation (by the state or the work collectives) as business developed.

The top *nomenklatura* echelon stood in need of thinking up some other organizational and legal innovations (aside from the cooperatives). It will be recalled that the republican and regional *nomenklatura* was undoubtedly the owner of actual legal powers of the higher order. And it did form the top-level pressure group, which made its bid for a sweeping and large-scale legal privatization as such (inspiring the subsequent sales-for-loans auctions).

Thus, it becomes clear that in order to analyze privatization it is necessary to investigate it not only as a process of consistent (and in the Russian case, extremely inconsistent and fragmentary) "decree"-making, proclaiming plurality of ownership forms, mass-scale privatization,

inviolability of private property, etc. Shifts in ownership are sooner a process of redistribution of actual legal powers from certain subjects to some others and creation of mechanisms for the realization and guaranteeing of the legal powers thus acquired. Real property relations reflect the volitional relations between production agents as formed under the impact of economic factors in a given historical period.

The first stage of privatization resulted in the emergence of a sort of a mixed private and state (*nomenklatura*) ownership, which may be interpreted as a form of power-property belonging in a period of the weakening of the "despotic" state. The country saw arise a queer edifice of *nomenklatura-state* capitalism.¹⁰

Stage 2: an attempt to create a private ownership system (1992-1996). In seeking to create private ownership not only in form but also in substance, the Yeltsin administration decided to make the privatization process a formal and mass-scale affair. Thereby it made an attempt to check an uncontrolled strengthening of the economic might of the former Party and managerial *nomenklatura* and create some institutional prerequisites for encouraging market motivation in producers. In accordance with the privatization program approved in late 1992, anyone who so wished and possessed enough money could purchase state property. The main aim of that stage, as seen by the organizers, was in creating the institutional conditions that enabled the coming into being and development of a private ownership system modeled on the Western democracies. Privatization, in that context, was regarded as a necessary and sufficient means designed to prop up the liberal reforms and stabilization measures. Importation of Western institutions concealed the Russian (half-Eastern) content.

The shadow owners of *nomenklatura-state* capital ("the new old owners") were no less interested in privatization than others. After all, they were constantly under a threat of losing their acquired property in an expropriation, given that the old property rights system was eroded and the new one was in a disarray. The threat could easily stop being potential and become real as their links with the federal or regional leadership grew weaker. It was the mass-scale voucher privatization that started the ball rolling. The voucher stage was followed by one of sales-for-loans auctions and investment tenders. The year 1996 marked the beginning of the money stage, and, though it continues to this day, the peak of privatization was in the period from 1993 to 1994.

By early 2001, the state property accounted for only 42% of the capital assets in the economy (as compared with 91% in 1991), with 80% of the total number of enterprises being privately owned. Privatization of state and municipal property affected all sectors of the economy, without exceptions. As a result, the state property came to occupy a subordinate place not only in terms of the total number of enterprises but also the overall production amount and the number of employees.

The majority of the population had a dim view of the new-fangled big private owners, seeing them as greedy predators that had snatched property from the weakened state or stolen it from their fellow countrymen, rather than as industrious producers and honest makers of huge fortunes. The negative image of "New Russians" is a steadily reproduced stereotype, as is confirmed by numerous sociological polls. And this view is by far hot ungrounded. The thing is, the lifting of administrative restrictions brought into the open the shadow enterprise that had existed in Soviet Russia and been in no way equivalent to the classical market economy.

The USSR's shadow economy was characterized by an unproductive yen for gain at any cost that had been born in the pores of Eastern despotism. There was no Reformation or Enlightenment in Russia, which in Western Europe condemned the late feudal money-grabbing and defended the early capitalist enterprise. Given the lack of institutional restrictions, the emancipation of enterprise from state prohibitions was accepted as a go-ahead for making money by any expedient. Not surprisingly, Russian business got a criminal and immoral flavor and that generated a vicious circle of sorts: since in the eyes of his fellow countrymen each "New Russian" was an epitome of thievery, he lacked any moral restraints. Condemned by the public opinion, he would commit acts conforming to his image in the eyes of the populace.

Stage 3: institutionalization of new power-property (1996-2002). Following the chaos that

broke loose in the course of Stage Two, it became clear, towards the end of the 1990s, that the power-property system was still holding its ground in competition with the new institutional arrangement. The privatization record cannot but be considered in its linkage with the preceding development. In Eastern societies, privatization was always a temporary deviation from the general line of development, needed for preparing a new spiral of centralization (in accordance with the "power-property cycle").

That this cannot be ruled out is clearly evident from the composition of the Russian top-level political and economic elite, which took shape in the 1990s. Three-fourths of the Presidential entourage and the Russian Government hail from the Soviet *nomenklatura*. The regional elites have an even greater proportion amounting to four-fifths. Only the party leadership and the business elite are 60% *nomenklatura*. These data characterize the state of affairs as it was in the mid-1990s,¹¹ but there is every reason to believe that in its origin the composition of the elite (particularly so in the regions) did not change much by early 2002. In order to understand, how much possible (or inevitable?) the new spiral of centralization is, let us first dwell on the concept of "residual state property."

Residual State Property as an Economic Institution

The privatization process resulted in the emergence of an economic institution of sorts in the shape of residual state property. It may be interpreted from both legal and economic points of view.

The first interpretation of the term "residual state property" became widely known owing to works of W. Andreff,¹² who includes in it enterprises where the state has either "the golden share" or small shareholdings. This interpretation characterizes that institution only as a legal object, emphasizing that the state currently retains only a small part of the economic resources and that the state property has lost its "nation-wide" implications.

This interpretation, however, fails to fully account for its institutional and economic implications. The thing is, the phenomenon in question is not limited to the direct remnants of state property, which now embrace around 3% of industrial enterprises manufacturing about 10% of industrial products and employing 13% of the workforce. As is to be regretted, it is much wider and deeper in Russia and includes not only the direct remnants of state property but also a type of economic management characteristic of the majority of so-called private enterprises held by the former "Red Directors" or work collectives and managed in the former (paternalist) manner, even though the institutional environment around them has changed drastically. The residual state property, like any other economic institution, must be described through formal and informal rules of conduct of economic agents in standard economic situations, through sanctions that are to follow in the wake of a failure to abide by them, through the rules of conduct of guarantors,¹³ as well as through the number of players using the said institution in the process of economic activities. The latter is of particular importance from the point of view of the institution's evolution and its possible replacement by other institutions (possibly more effective ones) in the process of institutional rivalry (metarivalry).

Before we disclose these institutional implications, we will attempt to identify the main characteristics of the residual state property. Historically, to wit, under the command economy conditions, the state property was strong because it was all-embracing, controlled from the single Center, and catering to the interests of society as a whole ("property of the whole people"). This chief advantage (even if it existed in theory) was irrevocably lost in the course of privatization. The "property of the whole people" was reduced to islets of state property acting as private in relation to other firms (including other state-owned enterprises). It means, first, that the state property has assumed the private form and operates as the private enterprise, because it embraces only *part* of society rather than society as a whole. Second, it has become private for yet another reason, being managed by the willpower of a local chief rather than on the basis of a unified economic plan. The residual state property is not for the benefit of society as a whole: it serves those who managed to grab it. This means that it may even be developed to the detriment of the state as a whole rather than to its benefit.

Its third characteristic is in that it is not the real private property either, because allocation of

resources was made on the residual principle. What remained of the state property was of no interest to real private owners and fell into the hands of persons who formerly belonged to the Soviet *nomenklatura*. It retained some hangovers of the so-called "property of the whole people" both in what it concerned resources (labor resources included) used and the organizational and managerial structure. That is why, in the economic sense, we understand by residual state property not only legal enterprises or state-owned shareholdings but also anything retaining some rudiments of the traditional command economy. It was these characteristics that foreshadowed the formal and informal rules of the game as well as the nature of sanctions that took shape in post-Soviet Russia.

The fact that in the process of privatization the greater part of Russian state property went to insiders (in the final analysis, to former directors of enterprises) and not to outsiders precluded the emergence of the effective private owner. That also predetermined the inner causes of the profound transformational recession which occurred during the transition from the command economy to the market.

The majority of these "insiders" have neither incentives nor sufficient knowledge for drawing up long-term production development plans or even concrete business plans for attracting investments. Preservation of personified exchanges and the lack of a strategy for acquiring effective partners lead to a situation where many enterprises are characterized by adaptation, rather than transformation, of traditional forms; by adjustment, rather than development, of production; by defense rather than attack. Up till now, a majority of enterprises not infrequently pursue inefficient marketing policies and seek to promote traditional products on traditional markets even under favorable circumstances. But even those products do not always find a market, a factor that generates barter as a form of existence of an inefficient economy. On the whole, the short-term aspect of entrepreneurial activities prevails over the long-term one, and the personal enrichment motive dominates over production development goals.

Monetary ties are in the open, while barter ties are always concealed. In a monetary environment, one finds it hard to hide one's earnings, whereas the barter economy, on the contrary, helps the emergence and development of "the economy of physical persons."¹⁴ This phenomenon describes separation of personal interests from company interests, and personal fortunes from enterprises' property. We have a paradoxical situation, where many deals are made in the interests of individuals and to the detriment of company interests, even if individuals in question are full-fledged owners of those companies. The barter form makes it possible to conceal the true nature of this kind of deals. Lingering in Russia to this day is a medieval attitude to one's own firm as *tenancy in office*, which may be lost once and for all in the whirlpools of the transitional period. That is why one's concern for personal property tends to push to the background the concern about one's enterprise.

Natural monopolies play an important role in reproducing the residual state property. Through them, the state is linked with numerous inefficient enterprises. The state lets the heads of natural monopolies enjoy (actually without annuity payments) the privilege of selling natural resources abroad, but in exchange makes them supply resources to inefficient enterprises. The real payment, in fact, is the free delivery of natural resources to state-run enterprises (the payback is spread over an indefinite period or is in the shape of products manufactured by these enterprises, which are almost impossible to sell in the open market). The resources thus obtained are used in the manufacture of useless products that sell only in barter chains. This was graphically demonstrated by the crisis of 1998, when an almost five-fold devaluation of the ruble to the US dollar failed to solve the problem of competitiveness of the overwhelming majority of domestic producers. The rub was not in the shortage of money: the market just did not want the products turned out by the domestic enterprises.

With an inadequately developed banking system as a background, we have a peculiar problem of two deficits—a deficit of savings and a deficit of the balance of payments. The savings deficit is connected with the fact that the level of savings that can be used by the industry is much lower than the amount of investments required for progress in production. The savings the banking system is capable of mobilizing are at an extremely low level for reason of the plummeting trust the

population has in the existing financial institutions. This brings about a situation where each person fulfills his or her high propensity for making savings at will, mostly in the form of accumulation of foreign currency, real estate and other illiquid assets that cannot be accumulated by the financial institutions. The state of affairs being what it is, foreign borrowing emerges as the only source of accumulation, a factor that naturally leads to a payments deficit. What is visible on the surface is only the process of inflow of foreign loan capital to Russia, whereas the deep-down processes of capital exportation are to a considerable extent illegal and not recorded in the official statistics. Thus we have a vicious circle or an institutional trap of sorts: the more money is needed for covering the current balance of payments deficit, the more need there is for external loans to cover the deficit of payments. But, the bigger are the external loans, the bigger deficits of payments are in store for us in future, and the bigger dependence on foreign capital this country develops.

The situation grows worse, because the state, in spite of the fact that it periodically approves some or other programs, in reality has nothing in the way of an effective industrial policy (specifically a policy for managing its own property) which would support the sprouts of the new and the effective and would create favorable conditions for an economic growth. Quite the contrary, the operation of the modern Russian state makes one think back to the epoch of mercantilism. What it is mostly concerned about are problems connected with redistribution, and not the sort that favors production development but one that inhibits production, because resources are redistributed from the economically best enterprises to the worst. The former are not only the source of taxes but also a source of subsidies for the inefficient enterprises, which normally do not pay taxes. All of this leads to the contraction of economically effective outfits, prompting managers to expand illegal economic activities.

The barter economy lacks money for major investment projects, this being the reason behind the ageing of the fixed assets and the growing of the technological lag. Not surprisingly, it is precisely these processes that prevail in Russia at the present time. In 1997, the fixed assets consumption in industry exceeded 50%. As calculated by A. Alekseyev, the average age of equipment was 15.9 years, and, if nothing changed, its average actual service life would be almost 32 years.¹⁵

Based on the right of economic management, the state-owned unitary enterprises are currently one of the legal forms conserving the economic institution of residual state property. The state is as before their formal owner and continues to appoint their managers. But there is practically no unified organizational and legal mechanism for planning and controlling the economic activities of state-owned unitary enterprises. If the command economy did have these mechanisms within industries and the ministerial framework (with some particularly important functions backed up at the corresponding levels of the Party hierarchy), the post-Soviet economy has nothing to substitute for the former mechanism.

The residual state property is reproduced in other forms too, typical of the Soviet system, like irrelevant use of budget money, hidden pay of wages, unpaid administrative leaves, etc. Superimposed on these are other forms bearing witness to the predominance of informal rules over formal: pay delays, non-payments, trade in tax exemptions, etc. Despite their existence, the formal relations between economic subjects are not broken off: workers do not quit en masse from enterprises practicing pay delays; enterprises keep up relations even while withholding payments. It is a relational contract of sorts, in which informal relations prevail over the formal ones.¹⁶

Back to Private-State (*Nomenklatura*) Ownership?

That naturally brings up this question: Are the *nomenklatura* games over? In other words, is the pillaging of state property over, on the one hand, and whether or not there are new projects for coming back to the period when the *nomenklatura* acted as the top manager of the state property, on the other? The former tendency reflects in privatization programs, the latter, in nationalization programs. Let us first dwell on the nationalization programs and then (in the next section) analyze the privatization programs that appeared in 1995, 1998 and 2002.

Given that nationalization projects have been actively debated in Russia since the end of 1995, it is of some interest to answer these questions: Which groups bid for these projects, what

forces are behind them, and what is the role in all this of the old and new bureaucracy? With a fair share of conditionality, one may break the available nationalization programs into two main categories: those "for" and those "against." The former are rather heterogeneous, embracing a wide spectrum of ideas, from pro-Communist attempts that urge a return to "the property of the whole people" to programs conceived by "the patriots," who come out for the strengthening of the state property at the federal or regional level.

Projects suggested by the Communist Party of the Russian Federation (CPRF) and the Liberal Democratic Party of Russia (LDPR) may conditionally be described as aimed at requisitions and confiscations. They were translated into legislative bills as early as 1996 and 1997, their social pathos being about "expropriating the new expropriators" and "punishing the thieves who nabbed the people's property."

The CPRF bill consistently implements the principles of "the revolutionary mass nationalization," Soviet Russia-style modeled on what was practiced in 1917 and 1918, and envisages approval of annual nationalization programs in the form of requisitions and confiscations. It declares as objects of "the exclusive property of the people of Russia" the enterprises in the fuel-and-energy, oil and gas complexes, transport, communications, defense industry, socially dangerous types of production, historical and cultural values, scientific and cultural establishments, educational establishments, children-care institutions, medical and medico-prophylactic institutions, as well as housing and communal infrastructure facilities. It lists the following as the grounds for nationalization: preemption of mass unrest, declaration that a piece of property belongs in the category of national property, the monopoly position of an enterprise on the Russian market, privatization involving breaches of the effective legislation or performed at patently understated prices, systematic breaches of the tax legislation, as well as of the rights of workers, consumers, etc. The work collective is given a special role to play. For example, the meeting of the work collective can decide on having a nationalized enterprise handed over to itself by way of full economic ownership and on forming a self-managing people's enterprise. Owners of nationalized property are to be recompensed with government bonds due to mature within ten years.

The LDPR project says that the decision on nationalization should be judicial and passed by the Supreme Court of the Russian Federation or by the Courts of the subjects of the Russian Federation under prosecutorial proceedings, as well as by deputies of the State Duma and those of the Legislative Assemblies of the subjects of the Russian Federation on the basis of applications from citizens or groups of citizens. Nationalization of private property is put on the agenda when its possession, disposal and use are detrimental to the state, public or individual security and/or interfere with the political rights of citizens. The grounds for nationalization are facts of infliction of detriment on a citizen or a group of citizens as caused by intentional or unintentional culpable acts connected with the enjoyment of property rights and the use of property for personal or public ends. Nationalization is possible in two forms: with and without compensation (requisition and confiscation).

The centrists' and rightists' bills (1997-2000) declare for compensatory nationalization and even recognize that the Russian owner is in an unequal position vis-a-vis his foreign counterpart. For example, they suggest nationalizing foreign property in accordance with a special procedure implying reliance on the Russian Federation's legislation on foreign investments and its international treaties.

The majority of the existing projects clearly tend to enhance regional independence, to strengthen regional separatism, and to consolidate the status quo of the first Yeltsin years as regards the distribution of property between the Federal Center and the regions. For example, the project moved by the independent deputy A. Puzanovsky gives a separate role hi inducing the nationalization procedure to the regional authorities and to city councils.

Occupying the extreme right part of the spectrum is *the project of the Union of Right Forces (SPS)* drawn up by the deputy G. Tomchin. Its close relation is a bill introduced by P. Bunich (*of Our Home Is Russia* faction, or *NDR*), who headed the Property Committee in the 1996-1999 Duma. The deputy I. Grachev drafted a bill of his own on the basis of this particular one and put it

before the current Duma.

The said bills regard nationalization as an exceptional form of alienation of property to the state, as an extraordinary method of bringing an impact to bear on private property, which can be put into effect only upon the total exhaustion of all other possibilities of property alienation. These regulate more *the limits of nationalization and bans on nationalization*, spelling out the guarantees of rights and interests of former private owners. They are also heedful of the fact that nationalization is not an ordinary buyout and that far from every kind of property can be nationalized. In effect, they are "anti-nationalization" programs. It is proclaimed that nationalization should be realized in accordance with these principles: *compensation, procedural openness, and judicial protection of owners' rights*.

Thus, within the foreseeable future the probability of full-blown nationalization (given the existing structure of the legislative and executive authorities and the necessity of complying with all the principles and multimove administrative procedures inscribed in the bills) tends to zero. The transaction costs arising in the course of the formulated procedures are forbiddingly high. Anyway, a former owner is able to withdraw from his enterprise any valuable assets during the preparatory procedures..

As revealed by the analysis, all projects with the exception of those proposed by the leftists (which more likely than not were created for time-serving political reasons) recognize inadmissibility of nationalization on such grounds as breaches of legislation in the course of privatization. On the whole, this is an indirect sign pointing to the main groups of interests being satisfied with the overall results of mass privatization.

What one may infer from an evaluation of the available bills is that none of them has the constructive aim of enhancing the efficiency of business assets *via* changes in the property rights. They either "conserve" the existing irrational property relations, thus making the positions of the residual state property impregnable, or pursue populist ends, calling for a sweeping nationalization, which may only end up in economic chaos and civil war.

So then, though the nationalization bills are currently unpopular and many were turned down by the State Duma in January 2002, the ideas of centralization and of an increased state interference in the economy are gaining strength. True enough, where they show the most is in the appeals for revising certain privatization results, not in calls for nationalization. Among the main methods whereby the private property is likely to revert to the state, one may single out *deprivatization* (a partial reinstatement or enhancement of the state control over privatized enterprises) and *reprivatization* (a second privatization of enterprises, where former owners failed to meet investment terms and programs).

As is evident from practical experience, the mechanisms under consideration are most intensively used within the framework of restructuring of enterprises with the participation of the state. The main instruments furnishing the basis for this sort of actions are the following: direct conversion of budget debts to corporate stock; rescheduling of budget debts with the use of mortgage schemes; acquisition of corporate shares on the stock market; revaluation and registration of state property (assets both material, primarily land, and immaterial: objects of intellectual property) contributed to the authorized capital of enterprises; invalidation of privatization deals on the basis of the failure to meet investment terms; direct exchanges of shares for investments.¹⁷

The institute of bankruptcy has a special role to play since 1998. Its normative functions are protecting creditors' rights and withdrawing inefficient enterprises from the market. The RF State Statistical Committee points out that the average of 45% of stale and overdue debts owed by industrial enterprises fell on tax payments and compulsory payments to the off-budget funds. This circumstance makes officials (particularly hi the provinces) the actual owners of important proprietary rights. As far as the latter function is concerned, the institution of insolvency is not performing its mission at the present time. In Russia, bankruptcy is one of the main tools for property re-sharing and in this connection it is more frequently used against potentially profitable businesses.

Thus, it is in the air that the state may considerably strengthen its proprietary status. At any

rate, economists professing different views¹⁸ will not rule it out as a possible scenario of further development. But what will be the vector of that development and its consequences? Proceeding from the foregoing, it seems that the criteria and results of some or other option can and must be adjusted. Everything depends on what relations from among the actually existing ones are to be enshrined in law.

An empirical study of the legislative process in Russia as it was since the mid-1990s showed that the preeminent element of the effort connected with the drawing up and passing of property legislation was the political bargaining over *redistribution advantages* for sides involved in the process, rather than the wish to increase economic efficiency. We may illustrate the demand for nationalization as coming from the new bureaucracy with the help of the Findley-Wilson model,¹⁹ based on D. North's theory of the state.²⁰ It postulates that the main economic function of the state in any form is rendering services aimed at specification and protection of property rights. In a situation, where the state for some or other reason ceases to be controlled by society, the bureaucracy becomes an independent and influential force in the political market and seeks to derive benefits.

In the short term, officials may seek to enhance their authority and prestige by boosting the amount of services they render (some cases in point are state nationalization agencies of the CPRF draft or the legislators' participation in the property evaluation procedure as suggested by the Puzanovsky's bill, etc.). In campaigning for the execution of large-scale nationalization programs, the bureaucracy covets an overproduction of "the public order," substantiating the need for state regulation by any means. "New jobs" are created with an eye to implementing nationalization programs, with state sector employment rates surging above the optimal level. The growth of structures engaged in nationalization continues until it becomes clear that all tax revenues are consumed in civil service salaries.

In the long term, the main nationalization factor for the new bureaucracy becomes the wish to secure a stable source of incomes. For example, in the existing political system the bureaucracy is not in control of the tax rate. In Russia, this right belongs to the parliament and is closely watched by the business elite lobby. Aside from that, it is difficult to collect even the established taxes. This means that the income from state-owned enterprises producing ordinary individual goods is the only source of incomes that the officials can use without impediment. Thus, in coming out for nationalization in the long term, the bureaucracy gets control over a stable flow of incomes from state-owned enterprises (in this case, the risk that the officials' activities will not be bankrolled in connection with someone's failure to pay taxes simply disappears). The result is that the optimal production level is lower than the one typical of the private ownership of enterprises. Consequently, one is apt to see as quite justified the assertion that one of the factors in the nationalization tendencies that have cropped up in society is the self-interest of the new bureaucracy, which objectively impedes the progress of genuine private ownership.

On to Private Ownership?

In order to make a transition to the genuine private ownership, it is necessary to fill the available private form with a private content. To do this, it makes sense to attempt to answer this question: What are the institutional conditions under which this may be possible? The analysis of this kind of institutional conditions becomes increasingly often the subject of latter-day specialized studies.²¹

Private ownership possesses an entire set of positive effects, including fixation of the economic potential of assets, integration of scattered information, promotion of proprietary responsibility, enhancement of asset liquidity, development of public relations and certification of deals.²² In addition, economic freedom is the foundation and a component part of civil liberties. In the first place, it is the necessary means for achieving political freedom; political freedom, in turn, is the guarantee of economic freedom.

What the neoinstitutionalists usually mean by *the ownership system* is a sum total of formal rules and informal restrictions, which regulate access to scarce resources on the part of economic agents that are the subjects of proprietary rights. Apart from that, it would be appropriate to include

in the system the economic agents that impose those rules as well as the guarantors securing execution of the said norms (Table 3).²³

Table 3

Ownership as Institutional System

OWNERSHIP SYSTEM		Right to use
	Property powers (rights)	Right to derive income
		Right to alienation
		The state
	Subjects of proprietary rights (proprietors)	Collectives (communities)
		Individual owners
	Norms and rules of proprietary conduct	The guarantor subjects (law-enforcement bodies, courts of law, etc.)
	Guarantors (protection mechanisms) of proprietary rights	The guarantor instruments (customs, laws, contracts)
	Norms and rules of conduct for guarantors	

Proceeding from the understanding of ownership accepted in the theory of proprietary rights, there is a need for a correlation between the rights zone and the responsibility zone for each subject of ownership. The principle involved is the following: the optimal distribution of the proprietary rights implies a situation, where risk-taking is in accordance with the rights possessed (clusters of separate powers) and the degree of (non) inclination to risk. Does that mean that the whole of the newly emerged private property is the residual state property? Of course, it does not, because the real private property is already cropping up alongside the pseudo-private one. The barter decline tendency, for example, bears witness to the shrinking share and influence of the residual state property.

There are different consequences following in the wake of the continuing state property privatization process, which is increasingly "exclusive" in nature. The appetites of the new-fangled bourgeoisie are yet to be satiated. But its tastes are increasingly dainty and refined. Today it is after not just any but the most profitable and effective chunks of state property. At any rate, ones more prepared for the pursuance of lucrative business. In this sense, the interests of the state bureaucracy and the private capital owners are the same: they objectively create the prerequisites for a push forward to private ownership.

A comparison of the RF Government's 1995 and 1998 decrees on enterprises not eligible for privatization shows that the difference between them reflects the official wish to make private only the most coveted objects of state property (in oil, fuel, chemical and petrochemical, aircraft, atomic, etc., industries) and to do that only at the stage when there are the necessary conditions enabling the act. In 2002-2003, we are in for a new wave of privatization and there is no doubt that the best chunks of state property will go to the biggest integrated business groups (IBG), which are increasingly important today in the context of the onward movement to private ownership.²⁴ They are an analogue of sorts of the early 20th-century US trusts. The prevailing high uncertainty and distrust between enterprises generate peculiar financial and economic complexes comprising industrial enterprises, commercial banks, insurance companies and other subsidiaries, which help to considerably reduce the transaction costs. In 2000, the eight biggies (Lukoil, Yukos, Interros, Surgutneftegaz, Alfa Group-Renova, Siberian Aluminum-Sibneft, Severstal, and AFK "Sistema") employed 2% of the total Russian workforce, while producing one quarter of the GDP and accounting for one quarter of the Russian exports. The majority of IBG grew from energy and mining companies and (thanks to natural rent) currently possess, considerable financial resources, which enable them to build up their economic potential. From 1996 to 2000, their inputs in their own investment projects doubled each year, putting them in the lead as the chief investors into the Russian economy.

It is important to stress that the IBG operate in a considerable number of Russian regions. For example, in 1993, Lukoil held a foothold in five regions, which number increased to 21 by 2000; Interros, one and 23, respectively; Alfa Group, two and 27, respectively. At the present time, the biggest IBG are the political and economic rivals of the regional elites. They are objectively interested in standardizing the legislative environment and creating a unified economic space in the RF territory. Already now some of them are engaged in the restructuring of the residual state property. They buy up enterprises and optimize their organizational structure and finances in order to increase the market value of assets. They also sell what they regard as unrelated outfits.

A developing economy would face a surge in alternative business costs consequential on the existence of informal relations. Amid economic growth, external uncertainty, improper partner behavior, lack of trust, and breach of contracts are an increasingly costly affair. But "a spontaneous shift 'from below' in favor of greater formalization and 'transparency' of economic interaction methods may assure a long-term effect only if it is seconded 'from above' legislatively, organizationally and politically," says R. Kapelyushnikov.²⁵

A chance for this type of backing from above appeared after the coming to power of the new Administration. As is common knowledge, the "Putin's project" embraces an entire system of measures: "(1) political and economic weakening of elite groups interested in preserving the former order of things; (2) standardization of the legislative space, removal of discrepancies between norms and procedures operating at different levels of the legal administrative system; (3) reduction of the number and simplification of the formal restrictions, as well as costs involved in their observance; (4) intensification of sanctions for breaches of law and contractual principles."²⁶ The problem is, however, that this program will have to be put into practice by the state apparatus which still keeps alive the methods and technologies of the Soviet *nomenklatura*. There is a danger, therefore, that the radical changes may result in personnel shifts and a complication of the bureaucratic control procedure, which will make it possible to derive some political rent.

That means that in the long run we need a transition from the model of "political modernization" of the institutional environment, which implies an active governmental promotion of new institutions, to the model of "market modernization" oriented to the demand for institutions on the part of market participants themselves.²⁷ As we see it, the concrete measures aimed at promoting private ownership and a policy in the sphere of privatization and possible deprivatization to be pursued in this connection should be based on two general principles: first, on a comprehensive approach to property legislation reform, and, second, on creating a system of incentives for all actual owners of separate property powers.

What is needed for implementing the comprehensive approach to the legislative reform is a closer teamwork in mapping out coordinated policies between all economic agencies concerned. This teamwork implies a coordinated introduction of amendments to the laws on corporate management, bankruptcy, restructuring and management of state-owned enterprises, management of state shareholdings in mixed enterprises, etc.

Creating the system of economic incentives proceeds from the assumption that the enforcement methods alone and other reprisals are not enough. The reform of the ownership system will lead the industry out of its depression and stimulate an economic growth if each agent is allowed to realize its economic interest and if it has a positive (not negative alone) stimulus for action. Measures should be applied, directed at stimulating stock market development and reducing the risks of operations with securities, with a special emphasis placed on instruments providing for a gradual transition from closed forms of business organization to open (public) ones. One of these instruments has the form of corporate bonds, which have a sufficiently dynamically developing market in Russia over the last two years—true enough, more likely despite than owing to the government policy.

Aside from that, in order to pull down Russia's present-day institution of residual state property, it is necessary:

- to radically reform the state. To make a transition from a "producing" state to a "protecting" state;

—to reorganize the state unitary enterprises based on the right of economic management (both at the federal and regional and municipal levels), making them either public enterprises and establishments or joint-stock companies (liable to subsequent privatization). To dramatically tighten the control over the financial and economic activities of the state-owned enterprises; —to channel considerable allocations into the judiciary system and enhance its independence from the executive authorities. This implies: a) increasing the number of judges and courts of law (in this case, entrepreneurs will no longer have to look to selfsame officials for resolution of economic and administrative disputes, thus reducing their power); b) building up the amount of printed matter containing interpretations of laws and description of law-enforcement practices and putting this literature within reach of anyone who cares to read it; c) tightening sanctions for administrative offenses committed by officials;

—to stimulate the development of small and medium business as a bearer of the ideology of free and individualized private ownership;

—with the help of the media, to convey to the population a positive image of someone successful in business;

—in order to map out an economic policy, to make an active use of the institutional project planning methodology with account taken of the preferences of entrepreneurs, managers, proprietors and all other parties concerned. In so doing, to be particularly mindful of the existence of the bureaucracy as a strong group of interests in the political market.

Only this kind of active program will make possible a new step forward on the difficult road leading to the real private ownership in Russia.

NOTES

¹ M. Olson, "Why Is Economic Performance Even Worse after Communism Is Abandoned?" *Virginia Political Economy Lecture Series*, Fairfax, 1993, 17 March; A. Radygin, I. Sidorov, "Russian Corporate Economy: One Hundred Lonely Years?" *Voprosy ekonomiki*, 2000, No. 5; R. Kapelyushnikov, "Where Is the Beginning of That End? (Apropos of the End of the Transitional Period in Russia)," *Voprosy ekonomiki*, 2001, No. 1.

² V. Kulikov, "Russian Privatization Over the Last Six Years," *Rossiysky ekonomichesky zhurnal*, 1998, No. 1; D. Lvov, "The National Dividend System—21st-century Planetary Model," *Ekonomicheskaya nauka sovremennoy Rossii*, 2001, No. 3.

³ R. Nureev, "The Asiatic Mode of Production and Socialism," *Voprosy ekonomiki*, 1990, No. 3; R. Nureev, "The Asiatic Mode of Production as an Economic System," *The Phenomenon of Eastern Despotism: Power Control Structure*, Moscow, 1993 (in Russian).

⁴ R. Nureev, A. Runov, "Russia: Whether Deprivatization Is Inevitable. Power-Property Phenomenon As a Path Dependency Problem," *Proceedings from the Fifth Annual ISNIE Conference*, Tuebingen, September 2001.

⁵ S. Kordonsky, *The Markets of Power. Administrative Markets of the USSR and Russia*, Moscow, 2000 (in Russian).

⁶ M. Cheshkov, "The 'Eternally Living* Nomenklatura!'" *Mirovaya ekonomika i mezhdunarodnye otnosheniya*, 1995, No. 6.

⁷ The overwhelming majority of cooperatives (more than 80%) were formed under the auspices of state-run enterprises and their workforce exceeded 90% of those employed in the cooperative sector. One may single out several reasons for this type of "affiliation" with state-run enterprises. First, tough administrative pressure brought to bear (through the local authorities) by the state enterprises, when cooperatives were undermining the monopoly of the state sector. Second, the state sector monopoly on the material and primary resources, the impossibility of leasing premises without assistance of an enterprise concerned, etc.

⁸ At that time, the legislation aimed at legalizing the private property was developing at a very slow rate; it was fragmentary and unable to keep pace with the real processes. The historical stages of its coming into being between 1985 and 1990 are the following: the USSR Law "On Individual Labor Activities" (1986), the USSR Law "On the State Enterprise (Association)" (1987), the USSR Law "On Cooperation" (1988), the USSR Law "On Property in the USSR" (1990), and

others.

⁹ A. Radygin, *Property Reform in Russia: On the Way from Past to Future*, Moscow, 1994 (in Russian).

¹⁰ See: E. Gaidar, *The State and the Evolution*, Moscow, 1995 (in Russian).

¹¹ See: O. Kryshtanovskaya, transformation of Old *Nomenklatura* Into New Russian Elite," *Obshchestvenniye nauki i sovremennost (ONS)*, 1995, No. 1.

¹² W. Andreff, "The Current State of Economics of Privatization: Lessons from Transitional Economies," *The Current State of Economic Science*, Spellbound, 1999, pp. 12-13.

¹³ V. Tambovtsev, 'The Institutional Market as a Mechanism for Institutional Changes,' *Obshchestvenniye nauki i sovremennost (ONS)*, 2001, No. 5; see also: *Social Sciences*, No. 2, 2002.

¹⁴ G. Kleiner, "Russia's Modern Economy as an 'Economy of Physical Persons'," *Voprosy ekonomiki*, 1996, No. 4; see also: *Social Sciences*, No. 4, 1999.

¹⁵ See: *Transformation of Economic Institutions in Post-Soviet Russia (A Microeconomic Analysis)*, Moscow, 2000 (in Russian).

¹⁶ See: R. Kapelyushnikov, *Op. cit.*, p. 147.

¹⁷ *Improving State Property Management in Market Conditions. Final Report*, Moscow, 2000 (in Russian).

¹⁸ Compare: V. Kulikov, *Op. cit.*, A. Radygin, I. Sidorov, *Op. cit.*

¹⁹ R. Findley, J. Wilson, "The Political Economy of the Leviathan," *Seminar Paper*, Stockholm, 1984, No. 285.

²⁰ D. North, *Structure and Change in Economic History*, New York, 1981.

²¹ See: J. Nellis, "Time to Rethink Privatization in Transition Economies," *International Finance Corporation Discussion Papers*, 1999, No. 38; M. Olson, *Op. cit.*; O. Williamson, "Economic Institutions and Development: A View from the Bottom," *A Not-So-Dismal Science*, New York, 2000.

²² For more detail, see: H. de Soto, *The Mystery of Capital. Why Capitalism Triumphs in the West and Fails Everywhere Else*, New York, 2000.

²³ A most important element of an ownership system is its guarantor, to wit, a social phenomenon which secures the fixation and recognition (protection) of changes in the distribution of rights to property that takes shape after an exchange of proprietary rights. The guarantors may be the following: one of the subjects of exchange; both subjects; a third subject; a norm, a custom (a moral principle, a religious precept, etc.); the state (the law and the state "power" organizations that enforce the law). In a sense, our socioeconomic interpretation of the "ownership system" concept is close to the concept of "economic organization of the economic system," suggested by V. Tambovtsev (See: V. Tambovtsev, "Apropos of a Typology of Economic Systems," *Economics and Mathematical Methods*, 1994, Issue 2, [in Russian]).

²⁴ Ya. Pappe, *"The Oligarchs:" An Economic Chronicle, 1992-2000*, Moscow, 2000 (in Russian).

²⁵ R. Kapelyushnikov, *Op. cit.*, p. 154.

²⁶ *Ibid.*, p. 155.

²⁷ See: C. Cadwell, L. Polishchuk, "Evolving Demand for Institutions in Russian Economy: Implication for Economic Reform," Paper Presented at the Conference *"Modernization of Russian Economy"* Moscow, April 2001 (in Russian).