

Russian and Euro-Asian Bulletin

Vol.6 No.1 January 1997

Published by the Contemporary Europe Research Centre
University of Melbourne

Notes Toward a Russian Political-Economy

Anthony Phillips
January 1997

After the Soviet Union broke-up at the end of 1991 the various states emerging from it proceeded into a period of economic instability and experimentation. All claimed to be aiming at the transformation of their economies and politics away from the Soviet system of Party and Central Planning toward the “normality” of Western democratic politics and a market economy. In this discourse they were following a path already being undertaken in varying ways by the former Soviet satellites of Eastern Europe. The name that emerged for this process was transition.

As a concept transition carries a number of assumptions. First that it is a transitory process, the conditions of transition are not permanent, nor particularly stable. The transition period is the in-between period. The term cannot help but have ironic resonances for anyone familiar with the Soviet system, it too was a system couched in the rhetoric of transition, from capitalism, through socialism, aiming at an ultimate goal of communism. We should not therefore be surprised to witness a “new” political-economy with many echoes of the old one. The old system, while it spoke constantly of arriving at, or preparing for, the communist destination, never actually arrived. With the exception of the fetishisation of certain types of economic growth less and less progress toward the historical station of communism was in evidence the older the Soviet Union got. It turned out that the conditions of transition, dictatorship of the Party, central planning and state ownership, were in fact the system. In a sense the station was built around the train. Any investigation of the current Russian political-economy would do well to keep in mind the previous history of transition becoming stasis rather than process.

Transition also implies that one is going from something to something else and that one knows what both these somethings are. Two problems arise here, the first is just how clear a picture those advocating and implementing transition had of what the communist system was and how it might be transformed. If you are attempting to break-up a social system, be it quickly (revolutionarily) or slowly (gradual reform) you need to have a good idea of what makes it tick. An examination of the writings of transition in both Russia and the West would find a number of competing conceptualisations of the Soviet system, not so much in terms of its key components but about the interrelation between them. The result of this was conflicting ideas of both what could be, and what should be, done.

The second problem, that concerning the nature of the arrival point, is similarly complicated. While the Western “utopia” that is the goal of this transition is “really existing” (unlike the abstract notions of communism which functioned only at the level of theory) it remains the case that questions which go beyond a simple checklist of key institutions towards an understanding of the patterns that support Western market economies and democracies yield complicated and diverse answers. However, such questions were little asked and both experts and the general population seem to have had recourse to a more commonsense notion of arrival that works basically at the level of a checklist. The dominant notion has been, “When we look like the West we’ll have arrived at the West”. An if we look like an elephant we probably have become one type approach. Such a checklist does have the attraction of providing some indicators against which some progress can be measured. However, it

leaves a lot to be desired if we wish to step back and ask larger questions concerning either the degree to which a new self-replicating social system is in place¹, or just what the system is and how it works. For these we need to be thinking about the interactions of structures and interests.

If there are problems being experienced at the levels referred to above, it should not be surprising that the question of how do we get there, the actual question of transition, should also be complicated and confused. Both transition studies and transition practice have been bogged down at this point virtually since transition started. And this was only the theoretical problem. In practice questions of different economic, geographic, and political starting points rendered comparisons between states in transition, and thus lessons to be learned, problematic. The immediate response of transition studies was to begin grouping the various countries in transition in order to try and compensate for this. However, the differences still threatened to overwhelm the similarities, especially once study moved outside the Visegrad four. In light of all of this it can be quite strongly argued that the concept of the "transition" as a holistic transhistorical process is of very limited use for actually planning or understanding the fate of post-communist countries. This is particularly so for Russia, as evidenced in transition studies where it is usually given a grouping of its own!

For the major part of this paper I wish to short circuit this problem by examining the Russian political-economy as a thing in itself, divorced from

¹. By using replicating here I am aware that this might lead into rather simplistic metaphors of the "society as machine" type. I would stress that "system" is a very problematic concept and when used with the word social, as in social system, almost contradictory. Societies cohere but they also transform, evolve, conflict and are deeply complex at levels which "social scientists" might love to systematically account for but have yet to do so. Ideal systems interact at the level of laws, and if the laws can be learned are thus predictable in the absence of variables which might change laws. However, social systems are never without variables and indeed modern ones seem to thrive on them at the same time as paradoxically trying to remove them. Suffice it for this paper to note that in using the term self-replicating system here I am referring to a social system steered by a number of key institutions, such as the market, the property system, etc which tend to dominate and reproduce their own patterns over substantial amounts of time.

notions of "transition", "normality" or the "following of the historical path". While the period 1991-92 appeared to be a revolutionary point, a point at which transition, the creation of a new system, could be chosen, in retrospect we have something far more messy. We have new institutions and new patterns of behaviour, but we also have the persistence of old patterns of behaviour and even strong echoes of old institutions in many so-called new ones. The Russian political-economy is a system now, in itself, it is no longer a planned procession toward something (if it ever was), rather it is something. From this perspective the main importance of 'transition' is in its subjective role as a discourse framing many of the policies and legitimations put forward for policy over the past six years. It tells us something about the ideological framework in which the new system was created rather than explaining the system itself.

There is no doubt that Russia is still in flux in many of its institutions, and its politics and economics remain volatile. However, if we are to make meaningful statements about it we must begin to unravel first what it is in light of itself. Only then can we return to conjecture about its place and future in the grander historical scheme of things. This paper does not claim to give the answer to what the existing Russian political-economy is. Rather it hopes to sketch some observations which might bring this answer closer.

The History of the "Transition."

The appointment of the Gaidar government to oversee transition was made in late 1991 when Yeltsin and the democrats who supported him were at their most powerful and legitimate. The democrats themselves had strong roots in the dissident movement, the only genuine anti-systemic social group of long-standing in the Soviet Union, and were thus well poised ideologically to make a truly revolutionary breakthrough. Moreover, conservative groups which might have supported the existing system were fragmented, demoralised and lacking authority in the wake of the past years of perestroika and the fiasco of the failed coup of August 1991.

However, the forces for change were constrained in their revolutionary zeal for a number of reasons. First, the very character and aims of the dissidents, democratisation and human rights, mitigated against punitive revolutionary change. Gaidar him-

self has also noted that pragmatic considerations concerning the disastrous nature of the economy meant the time was hardly ripe for political purges.² From President Yeltsin's perspective the banning of the Communist party and his closure of the Soviet Union would have seemed evidence enough that the strong presidency and legitimacy he had inherited from the Soviet Union's last year meant little political reform was necessary. The willingness of the Russian Congress of People's Deputies to grant him extra powers of decree would have confirmed this. Thus at the very starting point of the transition the avenue of political revolution, or even reform, was by-passed. This was something both democrats and Yeltsin later came to regret.

Revolution was however the main template for economic reform. Gaidar's launch of shock therapy in early 1992 was nothing less than a large scale assault on the institutions of central planning and attempt to replace procurements and targets with a working market. To this end most prices were liberalised and many of the major ministries co-ordinating production in the economy were shut down.

In retrospect much of Gaidar's effort in 1992 can be seen as both revolutionary and even Marxist in form. Taking as a starting point that the economy provides the social base upon which society is constructed Gaidar set out to dismantle central planning to the point where it could no longer be put back together. Without the economic base the political superstructure could not be re-built. His reforms effectively drove a wedge between the coalitions of industry and ministry that had held the Soviet system together, making a revival of communism, both practically and politically, extremely unlikely. To the extent that the introduction of the market created new actors, new strategies and new patterns of behaviour it could rightly be claimed that a capitalism of sorts had come to stay. However, the new economics was not the full scale introduction of Western developed capitalism. The problems alone with privatisation, law-making and laws, not to mention legal administration, saw to this. The old system broke-

up but various components of it, institutions and more especially patterns of behaviour, lived on, albeit in adaptive forms.

The adaptation of the old economy manifested itself in a backlash against Gaidar's policies which was being felt strongly by the middle of 1992. Various industries and institutions began adopting strategies of survival or resistance in the face of market demands they couldn't, or didn't, want to meet. As a proportion of the population began to show dissatisfaction with the impoverishment the reforms were causing they provided a political base for these actors. Their forum became the Congress, which grew emboldened as the reforms faltered in redressing the catastrophic falls in GNP.

The political tale of the period 1992 to October 1993 is one of continual deadlock and ambiguity of powers between the President and his government on one hand and the Congress on the other. Each blamed the other for the continuing economic failure. At the same time the sporadic and fragmented nature of the economic reform allowed a number of key patterns of political-economic behaviour to emerge which have remained evident to this day.

In particular the crucial nexus between political power and economic power which had been merged in the old Soviet political-economy was not broken. While the tensions between these two types of power remains at the heart of questions of policy, power and legitimacy in the West the dividing line of laws, particularly constitutional law, provides a level of balance and measurement between them. It could be argued that, as much as elections and party systems and civil rights, the division of economic and political power lies at the centre of the maintenance of democracies in Western capitalism. When this barrier begins to break down, or is perceived to break down, the legitimacy and health of the system come into question.

In the West a number of institutions, including private firms as a group, have an interest in maintaining this division of affairs. Corruption and favouritism are publicly frowned on and opposed. To the extent that in Russia insufficient groups exist who perceive this division as in their interest democracy remains fragile and the economy cannot function as one dominated by market considerations. Not only is there the problem of monopoly, a continual underminer of capitalist

². Notes taken from talks with Yegor Gaidar at University of Melbourne 3rd April 1996. See also Galina Kovalskaya: 'Yegor Gaidar in the Historical Context' *New Times* December 1995 pp.9-13

conditions (which paradoxically must always tend to produce it) there is also the problem of state patronage and corruption. Russia began with giant monopolies and a tradition of state involvement in economic production and both remain characteristic of the current political-economy. In this respect Gaidar's economic reforms, while destroying the nuts and bolts of the old system, have been less than successful at creating a new one in the image of the West.

Aspects of Russia's Political Economy Now

The contemporary Russian political-economy presents the observer with a number of diverse patterns of economic behaviour. Its political system, while formerly stable and tested in elections, seems to have an underlying fragility. This stems from its over-reliance on a powerful president and an understandable lack of precedents in political behaviour to cover the gaps positive constitutional law hasn't filled. In short, parts of the economy look capitalist and capitalistic type behaviour is evident everywhere but it is by no means the case that capitalist actors or actions are always the most important ones. Moreover, the political system remains untested in number of ways. Below I shall examine two aspects of the political economy: the economic subjects who dominate the contemporary sphere, and the particular crisis of the state. A third aspect, the production from these political and economic behaviours of specific ideological landscapes lies beyond the scope of this paper.

The Actors

Under the impact of economic reform the various institutions and actors within Russia sought to adapt, hoping to hold or better their condition. A number of different types of approaches were in evidence. I attempt below to list some of those I consider most obvious but this list is by no means exhaustive. One group I have left to one side for reasons of space is international capital in the form of individual firms and international institutions. It can be assumed that both are, to varying degrees, proponents of capitalist practices. All of the various types listed should be regarded as ideal, in practice various actors have of course pursued combinations of these behaviours.

The do nothing's

These groups have been the most common, especially in the manufacturing provinces and collective farm sector. Their immediate reaction to price reform appears to have been to boost their price not in relation to costs but simply as high as the market would bear. Indeed many didn't even worry about the market, they just produced and priced at rates that seemed fair or necessary in terms of the internal demands of the firm. Such behaviour seems perfectly explicable if one considers the nature of old Soviet practice whereby the chief concerns of the manager were meeting the plan. His/her concerns, with the exception of supplies, were largely internal to the firm.

While a great deal of price gouging went on by those firms whose market position allowed it the subsequent profits did not always travel in directions those familiar with traditional capitalism might expect. Rarely was money reinvested in the firms productive potential, more usually it went into the hands of management for consumption or personal investment. In the later period of privatisation, 1993-94, profits were also directed into wages and social funds as a pay off by managers to workers for voting them control of the firm. Again this behaviour was perfectly explicable in terms of old Soviet patterns whereby the leaders of local government and firms formed a sort of squireocracy.

This feudalistic tradition has also continued to some degree in the continual manifestation of a tendency toward local autarky. In the Soviet era firms were often involved in a number of activities designed to support their core production rather than relying on supply from outside. This reached its most fatuous proportions when firms' industrial land was being set aside for food production for their workers. In the current period firms still seemed to be involved in things like food production, along with sub-contracting capital equipment for sideline production. It may be the case that this Soviet era practice has even increased now that the centre no longer frowns on it. It could be argued that this would not matter if production was for the larger market but this is not necessarily the case. The mentality often appears to remain feudalistic, ie. about amassing control over means of production and guaranteeing stability rather than searching for profits. Moreover, the recurrence of this pattern can also be seen in the proliferation of bar-

ter and soft credits between firms rather than real financial transactions.

For firms where debt rather than profit was the rule two adaptations emerged, either to ignore the debt and allow cheap central credits to combine with inflation to wipe it out or, what appears to have been more the case since 1995 as inflation slowed and credit got tighter, to allow wages to go unpaid for long periods.³ In what are frequently one industry towns “do nothing” managers have a whip hand over the local labour force since they still remain a source of social services and housing and are monopoly employers. At the same time they can use the misery of the local populace as democratic capital to extract credits from the centre. The problem, they explain to workers/voters, is Moscow. The importance and power of this message was evident during the 1996 presidential election campaign where Yeltsin continually provided tacit vindication of it by promising wage payments at virtually every whistle stop.

Asset strippers

The actual levels of documentation on this group are not very substantial, mostly because the process happened quickly and often semi-legally. Much of the evidence is anecdotal rather than tabulated. The image of the asset stripper, who took a productive firm and sold off its buildings, land and equipment for immediate profit, leaving its workers and the greater economy in the lurch, was a favoured image of those opposing privatisation and radical reform. It received frequent references in the Russian press of all political persuasions from 1992 on.

There appears no doubt that many large profits were made by both managers and local government officials through asset stripping. However, not all asset stripping was asset stripping pure and simple. The largest problem facing both government and firms in the newly marketised environment was to produce a cash inflow for reinvestment in infrastructure and capital equipment. High inflation had rendered both the taxation base and already meagre capital market largely useless for this purpose. Often the liquidation of some assets was the only way in which firms could

hope to continue. Sadly many firms with apparently honest motives used up capital made this way to subsidise a continuation of old practices and failed later anyway. From the point of view of a mature capitalist economy the problem was therefore more the lack of capital, and its non-use in productive reinvestment, rather than asset stripping per se. The problem with the disposal of assets was thus either when it happened as basically a form of stealing, or when the proceeds were used in folly.

Good examples of the partial use of assets for capital or income production abound in Moscow, with numerous firms selling or leasing office property to provide income or capital. Moscow was particularly prone to this because of the influx of foreign firms seeking bases. However, the ideological impact of things such as Progress Press’s ground floor becoming a showroom for foreign cars was quite powerful and no doubt helped widen the perception among the population that Russian capitalism was basically about the loss of assets. Asset strippers remain a significant form of economic actor but are probably overstated as being dominant. Importantly the prevalence of the practice does point to the problems of law and lack of accountability levelled on managers in the Russian political-economy. It also helps to explain the receptivity of sections of the population to communist and nationalist ideology.

Capitalist Barons

It was from areas where quick profits were to be made for those with cash that the largest amount of the “New Russians” (as the Russian’s call their new conspicuous capitalists) came. They seem to have emerged from three Soviet strata: those of, or with good connections with, the nomenklatura; those from academic families; and those who were already rich from black market dealings under Communist conditions.⁴ Most of these people were also comparatively young at the beginning of the period, between their early twenties and early forties. At least two of these groups were drawn from sections of society with even wider experience of corruption than ordinary Soviets and this has both helped them in a new environment even more ruled by corruption and influence as well as contributed

³. By October 1996 wage arrears had reached almost US\$8 billion throughout Russia and were estimated to be growing at around 5% per month.

⁴. See Olga Kryshtanovskaya: ‘Rich and Poor in Post-Communist Russia’ *The Journal of Communist Studies* Vol.10 No.1 March 1994 pp.13-14

to its continuance. The biggest and most successful of these New Russians have become the new capitalist barons.

The major areas for profits in the post-Soviet period were in goods and services that the population simply had to buy regardless of cost, and in goods and services which gave access to foreign currency. Banks, media and raw materials were favoured targets. Many analysts hoped that these new robber barons would, as some would argue was the case in America, eventually become the core of a new law-abiding Russian bourgeoisie that would form a pillar of the new system. However, while there is no doubt they have become major political players, for example Gusinsky and Berezovsky in banking and media threw millions behind Yeltsin in the 1996 election campaign, they have yet to develop into force for democracy or economic stability.⁵ Indeed many of this group have led the charge of capital flight, thus actually depriving Russia of funds for capital investment.

Swimmers

Underneath the robber barons and tycoons are the smaller *wannabes*, possibly the real nascent Russian bourgeoisie. As a group they are often in service provision or building. While often unable to avoid either corruption or some contact with organised crime once their business reaches a certain level of prosperousness, they are first and foremost entrepreneurs in the traditional sense. They buy, sell and produce in order to accumulate, and are basically steered by market considerations. As a group they seem to have been a successful product of the first stage of privatisation of small firms, though their genesis was in the earlier legalisation of private enterprise.

The main limitation on the swimmers is precisely their individual level of unwillingness to move into more corrupt or criminal circles. Interviews conducted by this author confirm that many actually curtail their business once it begins to attract major

⁵. Gusinsky heads up the Most banking group and Berezovsky the LogoVaz conglomerate. Both have substantial television interests. In April 1996 they were amongst a number of financiers who called for postponement of the Presidential elections for reasons of 'stability'. They were important supporters of Yeltsin in the actual election campaign. Berezovsky became a supporter of Lebed but was later brought into the Security Council, apparently by Anatoly Chubais.

attention from criminal organisations or corrupt officials. The alternative is to "get a roof". Getting a roof (*krysha*) refers to finding a protector or patron and factoring in this cost to the business. Shalpentokh thinks this practice is so essential to Russian economics that he presents as the predominant pattern of economic life.⁶

Racketeers - Organised Crime and Political Classes

A full scale picture of the integration of organised crime into the economy is yet to be achieved but there is no doubt it plays a major role in economic decision making. Discussions of organised crime in the Russian press tend to concentrate on protection schemes, drug running and prostitution, along with links with Western gangsters. The tabloids also enjoy chronicling the lifestyle, which, if gangsters interviewed are to be believed, is itself modelled on tabloid reports and American crime movies such as *The Godfather* and *Goodfellas*. However, most Russians also make the assumption that political officials, especially old nomenklatura, and the capitalist barons are also part of the criminal nexus. Indeed this seems a fair assumption when one looks at the number of banker and journalist assassinations in Russia plus the private army of bodyguards so many business and political leaders carry.

Under the conditions of privatisation it was reasonable to expect that corruption would play a major role in economic activity, especially given the pitiful salaries of so many public officials. Now that the privatisation process is more or less over the question is whether the corruption is abating. It is hard to get evidence either way but it seems plausible to speculate that the pre-established patterns of state officials behaving as rentiers continues to flourish in what is still an ambiguous legal environment. Something as basic as a law on legal ownership on land is yet to be passed and those wishing to invest in capital, or even gain access to capital, must still rely on official goodwill in many cases. If getting rich in Russia involves getting a roof political officials and the mafia are two major suppliers.

⁶. Vladimir Shalpentokh: 'Early Feudalism - The Best Parallel for Contemporary Russia' *Europe-Asia Studies* Vol.48 No.3 May 1996, see esp pp.401ff.

The political rentier class in particular represents a principal holdover of the Soviet way of doing things. This makes them more than the stereotype of the "corrupt third world official" since there is a whole tradition of this behaviour deeply entrenched across the culture. Patronage was the Soviet way. Informal links built up over history hold this group together and inasmuch as the Russian Communist party forms an ideological front for them they have some formal organisation. However, as a class they are by no means confined to supporting the Communists. The Our Home is Russia party formed by Prime Minister Chernomyrdin had even more open support from members of this group, thus in part accounting for its unofficial name, the Party of Power.

While corrupt officials combined with the do-nothing managers continue to dominate much of the economy the development of Western patterns of economic behaviour are likely to remain severely retarded.

Workers

It is difficult to characterise workers in Russia as economic actors in their own right at the moment. While they are obviously the most numerous agents their lack of organisation as "workers" makes them much less powerful. Where they are in crucial economic sectors they have been able to use threats of strike to extract concessions, usually from the state. In other sectors they have tended to make economic demands of the state in alliance with managers rather than through unions.⁷ During privatisation management, as mentioned above, often catered to workers with the net effect often being the sacrifice of crucial investment capital. Overall, worker mentality appears to have been fatalistic and stoic economically, and shrewd or disinterested politically. Thus at the moment we might categorise them as primarily passive rather than active agents.

Nonetheless, it should be noted that over the last year unpaid wages have remained a sleeping powder keg which can and does ignite strikes and political protests on a regular basis. The net economic effect of these depends on the sector of the economy in which they occur. It would be reasonable to

⁷. A trend exacerbated by the fact that most workers are still covered by holdover Soviet unions whose normal practice was working with management.

assume however that the political and ideological effects upon the workers involved are cumulative. Thus organisation and consciousness may grow.

The Schizophrenic State

As noted above the Russian state has yet to properly separate the spheres of politics and economics. This problem is the major reason for the creation and continuation of economic agents like the *rentiers* and *do nothings*. An examination of the tasks, activities and power of the Russian state produces a picture of schizophrenia if it is measured by the standards of the typical modern state.

First the Russian state continues to be a major economic producer in its own right. Important sectors of the economy remain in government hands, particularly in the energy sector. The non-privatisation of Gazprom is the major example. It has been argued that Gazprom was too valuable to privatise and too crucial to the economy to lose control of. In a climate of fear of foreigners buying everything its retention was cited as a national duty. Apart from these emotional chords arguments were also made that if it had been privatised the owners would undoubtedly have conducted a swindle of high proportions.

A second argument, somewhat contradictory to this one, was that those who controlled Gazprom, including its former chief, now PM, Chernomyrdin, were unwilling to give up control because they were already conducting a swindle. A third argument was that having realised they couldn't get control through privatisation they opted for a continuation of state control in the national interest.

Of its own Gazprom's state ownership would not be that unusual, state monopolies in certain key sectors are often the rule in Western capitalist economies. However, Gazprom is unusual in that it is neither being operated in a profitable manner nor as an adjunct to a predominantly capitalist environment. Both the government gas supplier and the electricity suppliers seem to be used primarily to shore up private and public sector debt. They are doing this through incurring non-payments on large public and private debt and in handing over large amounts of revenue to help out the government's overall budget deficit.⁸ The net result ap-

⁸. See Peter Rutland: 'Russia's Energy Empire Under Strain' Transition Vol.2 No.9 May 3rd 1996 pp.6-11

pears to be that they are being starved of investment funds, something which can be expected to rebound on the entire economy in the medium to long term.

In addition to those enterprises the state still legally owns must be added all the "privatised" *do-nothing* enterprises that the government has continued to supply with credit over the last few years. The provision of credit has placed massive strains on the economy through inflation and changed the signals running through the banking system. The short term gain has been an alleviation of the massive social dislocation that will be caused if these technically bankrupt firms actually fail. However, the credits do not present a long term solution to the problem of transition, rather they enable the continuation of an alternate economy. Corruption allegations concerning missing credits and subsidies would indicate that *political rentiers* have also gained benefits from this state activity.

The second problem is related to the first. Modern states are first and foremost states of taxation, their revenue comes not from production but tax on production. As noted above the Russian state continues to be highly involved in production. At the same time corruption and avoidance have thrown actual Russian revenue recovery into crisis. Incoming revenue recovered is frequently less than half that budgeted for and this has been occurring for years.⁹ A state which cannot effectively tax is well on its way to being no state at all since tax serves to both provide government services and to regulate the economy upon which the state depends.

These problems do not mean that Russia may choose to return to production as a source of revenue (ie. some variant of state capitalism or central planning), the constellation of political-economic actors created by the reforms makes this highly unlikely. However, they do mean that economic fragility must be factored in as a minus against any apparent improvements in the stability of Russia's political institutions. This crisis of revenue may be expected to have especially important implications for centre-periphery relations, just as it did in the last years of the Soviet Union.

⁹. Omri Daily Report 11th October 1996 reported that budget revenues for 1996 were running at only 45% of planned levels. A good overview of problems in taxation revenue can be found in *Delovoi Mir* 2-8th August 1996 p.4 'Nalogovii inspektor primeryaet portupeiu'

The third problem is within the political institutions themselves. While Russia has had two parliamentary and one presidential election since 1992 it remains the case that the ultimate test of a democracy, a changeover in the real reins of power, has yet to occur. The make-up of the parliaments has changed but only after the new constitution concentrated so much power in the hands of the President that the lower house was reduced to virtually a tribunate. Yeltsin attempted to solve the problems of intermingled political and economic power by creating a strong presidency that could act as a sort of benevolent, democratically sanctioned, dictatorship of the pro-capitalist despot. This would guard against corrupt parliaments and oversee the transition. However, as with the dictatorship of the Communist party this transition is yet to happen and instead the focus of power, and accusations of corruption, have shifted to the court politics that have developed around the presidency.

Russian politics, like Soviet politics, has become very much a politics of patronage. Patronage produces at least two problems, both stemming from its informal nature. It is ripe for corruption, and accusations of corruption, since much of its activity takes place outside the public view. It is also based around private individual relationships and is thus quite different to the competitive open political structures that produce party systems. Russia still lacks a healthy party system and presidential rule does little to encourage its development.

In addition to the above problems the potential for the courtiers to reject a democratic change which would see their fall remains a major stumbling block to accepting Russia as an achieved democracy. With Yeltsin's health failing Russian democracy may be put to the test sooner rather than later. Moreover, even if a new president such as Lebed was to come to power over the resistance of existing courtiers the existing political structure makes the continuation of court politics more likely than not.

Conclusion

The emergent picture of the Russian political-economy is one of a strange hybrid of Soviet and market forms. The state rests uneasily on an economy whose chief actors rely intimately on use of state power for their continued activity. Accumulation of wealth rather than political power has become the major criteria for action but the sources

of wealth do not rest predominantly upon the market.

On the face of it a disproportionate amount of Russian economic activity is parasitic upon production rather than creative of it. Since neither the state nor the market has sufficient wherewithal to steer the economy the long term position appears precarious. The problems of generating the investment desperately needed to arrest economic decline and enable a successful and advantageous integration into the world economy appear stalled in the present situation. The political structure does not appear to be configured in a way that is capable of breaking the deadlock. It is democratic since it relies on elections but it remains to be seen if these in themselves can actually break the patterns of corruption and inappropriate state intervention. Even in elections the state is an economic as much as a political prize. In such a scenario parties and policies built around running an exclusively capitalist economy have to compete against a wide body of interests who see the state's role quite differently.

Despite the apparent illogicality of the situation it is possible that Russia can continue in this manner for quite a number of years. Capitalist economics can adapt to corruption if it can be factored in (in this case note that democracy is a minus unless one party keeps dominating, as for example in Japan) and can also coexist alongside other forms of production. Thus some indigenous capitalism should continue to survive in Russia, perhaps even following the historical pattern of eventually overwhelming non-capitalist forms around it. However the investment environment will be unattractive compared to that offered elsewhere, thus causing problems with foreign investment and in capital outflows from indigenous firms.

Russia can therefore can be expected to continue an economy of fragmented sectors in terms of both logics of production and geographic distribution of wealth and resources. Some sectors will become more capitalist and more integrated into world markets, others will bump along in semi-autarky. The strain exerted by these widening differences will fall upon the state and its political structures. This may result in further fragmentation in terms of the centre and periphery but also in new forms of re-integration since local sectors may orient themselves more rationally once the centre is less of either a help or interference. However, that Rus-

sia will continue to hold together does seem more than likely, after all most of its history is that of a weak state holding together a vast disparate region.

The Russian and Euro-Asian Bulletin is published by the Contemporary Europe Research Centre, University of Melbourne.

Contact:

Email: cerc@cerc.unimelb.edu.au

Web: www.cerc.unimelb.edu.au

The Bulletin is a refereed publication

ABOUT THE AUTHOR: Anthony Phillips is a CERC Research Fellow.