RUSSIA’S WARPED TRANSITION:
THE DESTRUCTIVE CONSEQUENCES OF ETHICALLY UNCONSTRAINED UTILITY SEEKING

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The Bolsheviks believed that autocratic, feudal and market economies were all exploitative. Autocrats imperiously ruled by decree; feudal lords subjugated their vassals, while capitalists appropriated surplus value. Lenin’s solution was to abolish Czarrist autocracy, the remnants of feudalism and the market, replacing them with communist administrative command planning. These actions were supposed to deter exploitation by nationalizing the means of production, requisitioning factors, fixing wages, planning production, rationing credit and collective goods (housing), and distributing consumer products at state-set prices.

The strategy had the effect of criminalizing private ownership and coercive wages and price negotiations, which were seen as the primary causes of unfair exchange. The tactic succeeded in suppressing private monopoly and oligopoly power, and the amassing of significant private wealth; it was accompanied by strict supervisory controls that deterred the embezzlement of state revenues and enterprise profits, the misappropriation of state assets, the mis-rationing of collective goods and retail supplies, and other forms of non-governmental labor exploitation. But these successes were achieved at a high price. People couldn’t get what they wanted because state supply planning, including the determination of product characteristics, production, prices, wages, and distribution were carried out independently without regard for consumer demand.

The Gorbachev and Yeltsin revolutions were supposed to purge these microeconomic inefficiencies, without compromising economic justice, macroeconomic stability, and growth by installing a “social” (social democracy) form of laissez-faire advocated by the International Monetary Fund and the World Bank, which assured fair and just exchange (Yavlinsky, 1991). But “free enterprise” was interpreted by the Communist nomenklatura, the security services, state appointed managers and the Mafia just as Lenin had foreseen, as the decriminalization of economic injustice, and the use of coercive and predatory power to secure the advantages of non-equivalent exchange characteristic of the pre-Soviet order, not as general competition under the rule of law. Russian liberals understood the distinction, but did not take effective countermeasures because many were corrupt or ineffectual, or they seemed to believe that under extraordinary circumstances, might was right.

The evolution of Russia’s post-communist “transition” is best understood from this perspective. Segments of the old communist elite (including organized criminals)

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Eastern Economic Journal, Vol. 25, No. 4, Fall 1999

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saw the collapse of Soviet power as an epochal opportunity to enrich themselves, living lavishly above the law. They sought to strip assets, illegally privatize state property, wrest enterprise control from other shareholders (especially workers), embezzle enterprise revenues, swindle the population through voucher privatization, Ponzi schemes, bank and insurance fraud, bogus lotteries, and by freezing savings rates and inflation soared. They openly engaged in traditional criminal businesses like commercial extortion, gambling, racketeering, prostitution, narcotics and murder. They stole state resources by under-invoicing petroleum and natural gas sales abroad, and by obtaining monopoies for the importation of foreign consumer goods. They used state power to emit money and credit for their own personal gain, obtained privileged state contracts, laundered money in many ways including the overpayment of interest to elite banks on treasury loans. They put their hands deep into the State's coffers treating tax revenues as personal assets, and squandered their gains abroad (Goldman, 1996; Redfield, 1999; Sachs, 1987; Millard, 1989; Blasi, Kroumov and Krause, 1997; Silverman, 1997; Yavlinsky, 1988; Makarov and Kleiner, 1996; Rosefsky, 1998; Tikhomirov, 1997; Webster, 1997; Gaddy and Iken, 1998).

This phenomenon, which can be described as kleptocratic pluralism (the rule of diverse thieves, including the President and his entourage, ministers, bureaucrats, security services, managers, financial institutions and the Mafia) is a free-form game with no fixed rules, where winning is less about maximizing optimally sequenced lifetime consumption than acquiring privilege and wielding power. It is the antithesis of the principles of natural law, and golden rule ethics (do unto others as you wish others to do unto you) that guide the invisible hand and undergird the efficiencies attributed to general competition (Rosefsky, 1996; Rosefsky, 1999). Russia's kleptocratic elites desire wealth, but they don't want to work honestly for it. They create or receive it, or receive it as an entitlement. Instead of trying to create wealth, they focus on protecting their turf.

Thus it isn't surprising that Russian "liberalization" has belied the predictions of Jeffrey Sachs, Anders Aslund and Roy Laird (Aslund, 1996; Sachs, 1996). Russia's elites oppose general competition and have engineered the current privatization, the wrong "stabilization," and the wrong "decontrol." Until the August/September 1998 financial crisis in which the Kremlin defaulted on 40 billion dollars of post-Soviet, and 20 billion dollars of Soviet-era commercial debt owed to the London Club, and froze domestic and foreign ruble denominated accounts in the nation's banks, abruptly aborting its elusive economic recovery (Hardt, 1997). The G-7 countries pretended that once Russia embarked on its post-Soviet transition, path dependence would guide it to what Gorbachev declared was its "common European home." But as the economy continues to founder, the catastrophic consequences of the decentralization of economic injustices have become increasingly evident.

The issue no longer is whether Russia is mired in kleptocratic laissez-faire where the state retains substantial ownership and control rights over key assets, but declines to exercise them vigorously or adopt the rule of law, allowing officials, owner-agents and others to perpetually squabble over the distribution of the spoils, instead of creating new wealth. Rather it is how this degenerate version of Lango's "competitive" model founded on the radical separation of ownership and state agent control will evolve
democratically disapproved forms of economic misconduct, whereas in the other regimes the legitimation of economic injustices depresses and warps performance.

The inefficiencies exhibited by klepto-laissez-faire, authoritarianism, the rentier state and European-type social democratic capitalism have many shared attributes. They mis-allocate factors and credit, misuse factors, mis-produce, and mis-distribute goods, degrade production potential, and diminish Pareto-efficient social welfare. But klepto-laissez-faire and the rentier state on the one hand, and Soviet-type authoritarianism and European social democracy on the other are strongly distinguished by the effect economic misconduct has on aggregate economic activity. Ethically unconstrained power seeking, and the suppression of rivals make klepto-laissez-faire and the rentier state inherently resource- and effort-demobilizing, whereas the (re)criminalization of anti-productive and unjust activities in the authoritarian and social democratic models should spur employment and rapid economic growth.

The ascendance of klepto-laissez-faire from this perspective provides the basic explanation for Russia’s dismal postcommunist economic performance. The problem isn’t so much that Russia has more than its fair share of criminals, but that the state itself condones and abets inefficiency and production-repressing forms of business, instead of building the prerequisites for general competition. The G-7 countries had prepared itself for a bust of barber money and was resigned to live with the injustice, but expected this thievocracy to be constructive, propelling recovery and modernization up the post of the “U” curve. This was a blunder. Russia’s klepto-elites never had any intention of emulating Rockefeller, Harriman and Hill by maximizing Benthamite utility, wealth, lifetime consumption, or giving precedence to their civic responsibilities. Winning for them in a culture that esteems power above social welfare, where might is right, has nothing to do with Schumpeterian entrepreneurial pioneering. It means just the opposite: suppressing worldly competitive markets, empowering coercion and legitimizing bureaucratic abuse and subjugation,” which have visible impacts on the efficiency structure of aggregate economic behavior.

Most economies can be divided into five components, or subsystems: (A) generally competitive markets for some generic products, (B) inefficient markets attributable to incomplete profit and utility maximizing, (C) coercive markets ruled by private market power, (D) state administrative bureaucracies, which ideally regulate and command in the public interest, and (E) subjugatory activities where private authorities compel others to act against their will (criminal compulsion). These subsystems defined for classes of economic exchange operations (voluntary, coerced, regulated and compulsory) between and among individuals are illustrated in Figure 1, the universal set of economic activities. The blank spaces separating the system subsets (the complement) refer to utility-enhancing activities excluded from conventional definitions of gross domestic product like hugs and kisses.

Only the first subsystem, conspicuous by its absence in post-Soviet Russia is consistent with the axioms of market efficiency. It is micro- and macroeconomically self-regulating. The behavioral characteristics of the other subsystems are less predictable. Profit and utility maximizing may be incomplete in varying degrees for a host of reasons that depend more on context than universal principle. The same is true for monopoly, oligopoly, oligopolistic competition and criminal extortion, which compel victims to accept disadvantageous terms of exchange up to the point where they voluntarily switch to close substitutes. Subjugation ranging from criminal compulsion to slavery allows masters to impose their will on those they control no matter how onerous the terms of exchange. And of course while it is possible to imagine an efficient bureaucracy, there are no automatic mechanisms disciplining the state to attentively respond to its clients needs, or to cost effectively provide services.

Economists influenced by the theory of the second best, believing that all major economies today are governed by imperfectly efficient markets (B), are inclined to infer that the comparative performance potentials of diverse market systems are broadly alike, paying scant attention to the rest of the universal economic activities set. They assume that B, or the union A U B is the universal set, and discount the repressive influence coercive market power (C), state bureaucracy (D), and subjugatory activities (E) have on free markets. These attitudes cause them to disregard the obvious heterogeneity of predominantly market systems, and the role diversity plays together with technical failures and policy errors in explaining observed behavior.

Coercive market power not only distorts distribution, it diminishes factor effort, productivity and market size. State bureaucratic mis-regulation has similar effects, which may be exacerbated by prohibitive commands restricting entry and dampening competition. Tariffs, quotas, non-market barriers, state licenses and correlative contracting are just a few of the ways that this is accomplished. And private subjugatory actions may be even more dysfunctional. Thugs harassing rival workers and managers, denial of credit by importer controlled banks to import substituting domestic industry and other such practices necessarily shrinks production potential and diminishes social welfare further through the proliferation of criminal disservices like prostitution and drug trafficking.

These effects can be visualized by varying the size of the subsystems sets. Russia is distinguished by its null perfectly competitive sector, its small imperfectly efficient market (B) dominated by coercive market power (C), crony-influenced...
cratic regulation (D-B) and an administrative state sector that controls components of the industrial capital stock [Earle and Estrin, 1997; Radygin, 1995; Perevalov, Gimadi and Dobrodeev, 1999] together with nearly all land and resources (D), and a vast crime intensive subjugatory sector (E). This degenerate configuration of the economic activity space, epitomized by the compressed and coerced state of the system's inefficient market and its bloated subjugatory subsystem, illustrates why Russia's economy is egregiously under-productive compared with Continental Europe [Rossielsda, 1994].

But the size of the subsystem sets and their configuration are only half of the story. The extreme under-productivity imposed by the structure of the economic activity set is exacerbated by Russia's anti-competitive rules of sub-systemic interaction. When kleptocratic laissez-faire reigns, efficiency is sacrificed to free-for-all games in which monopolists, the bureaucratic elite and criminal subjugators alternatively vie for hegemony and collude in exploiting the hapless, so that the weight of oppression is greater than the sum of its parts. When these same players consolidate their privileges and agree to abide by rules institutionalizing their gains, the system is afflicted with state-subsidized elite rent-seeking (the rentier state). And should authoritarianism be reinstalled, the dominant source of inter-sub-systemic under-productivity will be state bureaucratic. Better outcomes are possible if C, D and E are eradicated, but this can only be accomplished through a political revolution embodying the values and institutions of the developed West.

These principles can be illustrated by examining how incomplete profit-and utility-maximizing, coercive market power, criminal subjugation and bureaucratic misadministration cause the Russian market to deviate from the classical efficiency ideal. The properties of Russia's distorted market can be analyzed in each of its four primary component factors, production, finance and distribution, and collectively as an interactive whole. Violations of Pareto-efficiency caused by the incompetent and anti-competitive behaviors associated with B, C, D, and E can be graphically illustrated with the aid of Edgeworth-Bowley production and consumption boxes, and diagrams depicting production possibilities and community indifference curves. As is widely understood, the functions considered here, and the associated equilibria can be realized in theory either through perfect competition, or perfect simulated planning: Supply-side relationships shown in the Edgeworth-Bowley production box (Figure 2), and the production frontier spaces (Figures 3 and 4) take two forms, deviations along the contract curve away from the generally competitive equilibrium (E), and points off this locus. The Edgeworth-Bowley production box shows the geometric relationships between primary factors of production (capital, k and labor, l) along the sides of the box, and the sequences of firms producing two different goods (g1 and g2) radiating in increasing order from their respective origins. The locus of joint tangen-
cies of these isoquants represents Pareto efficient allocations and employments of capital and labor, given the wage-rental ratio, and the output-price ratio that would hold if the product and input mixes were optimally responsive to different configurations of competitive demand. This nuance is important because it defines the sense in which every point along the production possibilities frontier is consistent with a "potential" rivalrous, non-coercive competitive efficiency equilibrium. If other input and output prices were utilized, different frontiers could be generated, but they wouldn't be generally competitive.

Deviations from the general competitive equilibrium point E on the contract curve thus have very specific meanings. They imply that market participants may be occasionally irrational and lax, demanding a sub-optimal product mix, but otherwise maximize profits and utility in all four core markets. This type of distortion is depicted in Figure 3 as a movement either to the left or right of the universal equilibrium point E along the production possibilities frontier, and is often described as "economic" inefficiency rather than a "technical" shortcoming because while demand isn't optimized, supply is "technically" efficient.

All other lapses of competitive discipline including coercive violations of antitrust law, subjugation and bureaucratic mis-administration degrade supply efficiency and consequently necessitate production beneath the production possibilities frontier in Figure 3. If these inefficiencies proportionally diminish product quality, or the factor productivity of both products, the assortment of goods and services will be the same as that of a generally competitive equilibrium (assuming demand is efficient), but the amounts produced and distributed will be reduced. The set of all such points is illustrated in Figure 4 as a ray (expansion path) lying between the origin and point E, and corresponds in the Edgeworth-Bowley production box with a downward renumbering of the isoquants (and a contraction of the box). The larger the numerical reduction in isoquant values, the steeper the shortfall from the production possibilities frontier; of course, any violation of the double tangency requirement constitutes a further decrease in supply. Just as the points along the production possibility frontier other than E in Figure 3 are "technically" efficient with respect to supply, the points along the specified segment of the expansion path can be described as "economically" efficient with respect to the desired universal equilibrium assortment, although the term economic efficiency sometimes is reserved solely for point E.

All other inefficiencies that involve both demand and supply whether stemming from incomplete individual sense, search, evaluation and negotiation, or from the assertion of market power will push production off the contract curve in Figure 2, and off the expansion path segment between the origin and point E in Figure 4, implying that the economy is both technically and economically inefficient. This is conventionally illustrated in Figure 4 by point E" which lies on a "production feasibility frontier" analogous to the production possibilities frontier, but subject to additional inefficient technical constraints.

The degree of inefficiency for any particular case, given these concepts, can be gleaned by considering all supply-side lapses in competitive discipline. Starting with factors, any irrationality that distorts judgment, effort and input service-time, or external coercion may cause capital and labor (including management) to be mis-supplied and mis-allocated. Laziness and business pessimism may reduce voluntary input supply and inflict involuntary factor unemployment. Or in euphoric periods, people may voluntarily overextend themselves, or be pressed into working overtime. In either case, the size of the Edgeworth-Bowley production box may shrink or expand, and isoquants may be reordered (due to under- or over-exertion). Aggregate economic activity in the production space will be sub-optimal regardless of whether factors are being under- or over-utilized. Any input misallocation, for example due to excessive union pay scales, will further degrade productivity and welfare, and mis-education and mis-training distort growth.

The degree of state-approved coercive distortion in the Russian collectivist kleptocratic-faire (and in a future rentier state) factor space is remarkable. The supply of both capital and labor are depressed and mis-allocated by the inadequacies of private property rights, subjugation and related government restrictions. As previously noted, all natural resources, most land, and forty percent of the industrial capital stock remain state-owned. This means that the insiders who control these assets have no pecuniary incentive to maximize profits from current operations, or the present discounted value of the capital stock. In the absence of a market for the exchange of securely titled goods and assets, they are inclined instead toward asset-stripping, rent-seeking and anti-competitive subjugation. During the Soviet period corresponding inefficiencies were partly mitigated by state ownership, mandated managerial bonuses and centralized procurement of capital durables, but insiders now are left to their own devices. Moreover, the problem is compounded by the peculiar character of Russian private industrial property, which is mostly majority-labor-owned, but managed controlled. This not only creates severe conflicts of interest, but impedes labor mobility. The persistence of collectivized control and/or ownership in the agricultural sector has the same distorting impacts. As a consequence of all these constraints, mis-incentives, and anti-competitive distortions the size of the Edgeworth-Bowley production box has drastically contracted. Approximately seventy percent of the industrial capital capacity is idle (judged by production during the Soviet era) and labor unemployment (including underemployment) is in the high double digits.

The isoquant levels within the production space have also been reduced because capital and labor are mis-incentived and inadequately rewarded. And of course, factor prices are in acute disequilibrium due partly to entry barriers and partly to economic disorder. It has been variously estimated by Valeri Makarov and George Kleiner [1996, 1999] that more than 70 percent of all intermediate inputs are bartered rather than sold at alternative forms of trade in the industrial wholesale market. Thus instead of operating at E on the normal imperfectly competitive production feasibility frontier illustrated in Figure 4, production actually occurs on a drastically lower feasibility frontier at point R.

Moving upstream to the product market, attention shifts to product characteristics, technology and competitive profit maximizing. A nation cannot realize its full competitive potential unless it produces goods with the right characteristics. The qualitative aspects of q and q, must be free of the standpoints of equilibrium demand. Mismatch, irrationality and market power could all cause severe supply inefficiencies. In the extreme, outputs may turn out to be "bad" instead of "goods," and so
unsaleable. Such losses can be illustrated by converting inferior goods into smaller quantities of superior outputs at the equilibrium marginal rate of transformation and renumerating isoquants accordingly. The same kind of adjustment is required when the technologies embodied in isoquants do not reflect the optimal rate of introduction of best practice techniques.

Likewise, when managers fail to optimally organize and incentivize their enter-prises and entrepreneurs do not capture rents and pioneer new ventures as fully as they should, realized output is below potential, necessitating a lowering of the isoquant values in the Edgeworth-Bowley production box and an inward shift off the production possibilities frontier.

Production inefficiencies in one or both activities may also occur if firms incompletely profit maximize by failing to acquire inputs at the least competitive cost or hire them to the point where marginal cost equals price. And of course, proprietors who illegally exert market power by restricting output, or engage in other anti-competitive practices that enlarge market niches and artificially create economic rents on production feasibility frontiers that are insensitive from the perspective of both supply and demand.35

Yeltsin’s kleptocratic-tycoon is gravely afflicted with all these ills. Most products were designed in the Soviet period when consumer preferences were flagrantly disregarded and are virtually unsaleable in the global marketplace. The relaxation of state standards and lax enforcement has resulted in widespread product adulteration, while the introduction of improved products is negligible, with the exception of new service sector construction and housing for the elite based on foreign designs and built largely under the supervision of western contractors. These failures are partly attributable to state ownership and the contradictions of Russian industrial and agrarian collectivist property rights. Insiders in state-owned enterprises often don’t care what they produce, while managers, workers and collective farmers are preoccupied with other concerns. Inattentiveness to product characteristics is also explained by elite preferences for foreign goods and the lack of capital to finance redesign and innovation.

These same forces degrade productivity and output supply. Most firms and farms in Russia incompletely profit maximize [Klein, 1998]. State enterprise managers, directors of worker-owned firms, and collective farmers have little reason to minimize cost or produce to the point where marginal cost equals marginal revenue (or price when they are price-takers). Derived demand for inputs consequently is deficient and misdirected and enterprise organization is inefficient.36

Some firms, however, have prospered. But unfortunately most of these cases are exceptions that prove the rule. The surest path to riches in Yeltsin’s Russia comes from asset-grabbing (unjust acquisition of state property by misappropriation, looting and underpayment), asset-stripping (state-sanctioned divestiture, scrapping and sale of otherwise useful collectively owned assets for personal gain), and rent-seeking (se-curing non-competitive government contracts and market restricting regulations to obtain unearned income and excess profits). The beneficiaries of these practices in-cluding various large banks (some owned by the Mafia), the conglomerates assembled by Russia’s tycoons, and natural resource processors beholden to state officials

(Ruslanovskaya) owe their good fortune entirely to collusion and coercion in restraint of trade and governmental abuse. They are contemptuous of textbooks profit maximiza-
tion and cause enormous material harm by squandering resources and depressing competition. For example, the same kleptocrat who control resource exports, domi-
nate the importation of foreign consumers goods and retailing, making it difficult for
domestic producers in the traditional sector to market their products effectively. Their operations are treated as positive contributions to Russia’s gross domestic production in accordance with the rules of national income accounting and are sometimes ratio-
nalized as essential stepping stones toward the construction of generally competitive capitalism, but their net effect is wholly deleterious.

All these sources of productive inefficiency might warrant only passing concern if entrepreneurship were splendid. Schumpeterian theorists often suggest that every inefficiency provides profit opportunities for wealth-creating entrepreneurs. Russia consequently should be a gold mine for industrial venture capitalists. But it has proven instead to be a wasteland because the state, tycoons, and Mafia always seem to find ways of appropriating entrepreneurial profits and assets. As a consequence, Russia’s productive efficiency is wretchedly low, judged from either the competitive ideal, or western coercive standards. Its only real substantial source of non-illusory income comes from the sale of natural resources.

Laxness and lack of accountability in the financial markets by lenders, investors, speculators and governmental regulatory agencies may significantly compound factor and mana-
ging inefficiencies. If governments mis-regulate credit, interest and foreign exchange rates, bankers exercise unusually poor judgment in evaluating credit risks, and in-
vestors and speculators under- or over-borrow, the economy may become macroeconomically depressed, or overheated. Contractions and excessive expansions of the Edgeworth-Bowley production box may be exacerbated, isoquant levels may be diminished or augmented in ways that reduce utility, and factor misallocation and product mis-assortment intensified. These distortions may be persistent or generate the familiar boom-bust pattern characterized by intermittent periods of over and under full employment, under and overinvestment, inflation and deflation, prosperity and depression. Supply in all these various ways may be gravely inefficient, even in the absence of government-sanctioned economic coercions.

The collapse of Russia’s financial system in August/September 1998 speaks for itself. The state, and kleptocratically supported private banks, have been involved in one financial fraud or another from the outset.37 During the first two years after Yeltsin came to power in 21 December 1991, the government resorted to un-collater-
ized currency printing to pay its bills, wiping out the personal savings of ordinary people and diverting vast sums to the elites [Brainerd, 1998]. This was then followed by a new scam in which banking became primarily a business of lending overnight deposits to the government at above competitive rates instead of making productive loans to commerce and industry. The government covered these disguised transfers by floating dollar denominated paper in the West at ludicrous rates in the vicinity of 100 percent per annum that could not be sustained, leading directly to default and the subsequent collapse of the entire financial system. Although some of these tactics have been applauded for curbing inflation, Russia’s financial sector obviously is a
fiasco. The government and its cronies not only mismanaged the supply of credit, and the allocation of loans, funds, starving traditional industrial enterprises for operating capital, but dysfunctionally manipulated interest and foreign exchange rates compounding the nation's under-productivity and inefficiency.

Any supply-side inefficiency, large or small, must degrade social welfare because the community will have fewer goods and services than it could have enjoyed, often with the wrong characteristics in dis-preferred assertions. Matters will be worse if product demand is partly ineffective and the distribution of outputs is inefficient and inequitable. In the competitive paradigm lapses can be ascribed to two causes: irrationality and laxness on the one hand and government abuse of authority and private coercion/subjugation on the other. Their consequences can be highlighted with the aid of community indifference curves overlaid on the production frontier space in Figure 5, the Edgeworth-Bowley consumption box illustrated in Figure 6, and the social utility frontier in Figure 7.

Recalling that the universal competitive optimum is depicted by the joint tangency of the community indifference curve and the production possibilities frontier at point E in Figure 5, aggregate demand inefficiency can be described as any composite consumption occurring on a community indifference curve lying beneath point E at point E'

If suppliers want to be responsive to consumers' preferences, but buyers are reticent or fail to effectively communicate, competitive potential may be unrealized due to Keynes' inadequate aggregate effective demand. The micro distribution of the observed gross domestic product may be similarly impaired. If some market participants are unusually lax in sensing, searching, evaluating and negotiating market consumption opportunities, purchasing power and terms of trade will be inefficiently turned against them. Consumption won't occur at point E on the contract curve where purchasing power is misallocated, and will lie off the curve if Pareto negotiations are incomplete. Also, by analogy with the isocounts in the Edgeworth-Bowley production box, indifference curve levels may be renumbered downward if consumers' appreciative faculties are dulled by systemic trauma. A delicious meal may be tasteless to a distracted gourmet. And of course, the phenomenon of waste interpreted as a shrunken Edgeworth-Bowley consumption box should not be ignored. When goods spoil, or people spend their money on things they later find they didn't want, actual well-being will be less than potential.

These demand-side failures arising from irrationality and laxness are compounded by supply-side lapses in distributional efficiency and abuses of public and private
coercive power. Retailing inefficiencies prevent goods from reaching consumers in the optimal assortment, and excess profits, rents and other unearned incomes (seizures) resulting from anti-competitive practices and subjugation skew the distribution of income in favor of offenders, diminishing the well-being of victims, and spurring inequality and injustice. This phenomenon is illustrated in Figure 6 by forced movement away from point E to toward D (where the kleptocratic elite receives an unjustly large share of GDP) along the contract curve. If the movement is to D off the contract curve, it further diminishes social welfare by sub-optimally distributing goods and services with insufficient regard for productivity, need or merit.

Russia's record in all these regards is lamentable. The collapse of the Soviet Union disordered retail distribution and unleashed a spate of asset-grabbing, asset-stripping, rent-seeking and financial malfeasance, which concentrated control of wealth and income in relatively few hands, while impoverishing large segments of the population. These transfers never would have been tolerated in a classical regime, or in the coercive economies of the mature West, and stand as a monument to the collapse of socialism, even though some interpreters view it as a sign of Russia's success in its struggle to transition from communism to market capitalism. The disorganization of the retail market exemplified by the widespread persistence of barter, the Mafia's control over small vendors, and restraints in the provision of retail services through private and governmental collusion all testify to the exorbitant inefficiency of Russia's consumer sector. Despite a patina of ostentatious display by the nouveau riche, the standard of living for most of the population is poor not just because supplies are inadequate, but because the retail sector is disorganized and unjust. Figure 7 which arrays kleptocrats on the ordinate and ordinary people on the abscissae illustrates this outcome by comparing the achieved Russian social utility frontier (which takes account of all aspects of national consumption and coercion) with the competitive ideal. It suggests that the average quality of Russian life is much lower than its potential, with the klepto-elite faring exceptionally well compared with the plight of ordinary people (Braunerhjelm, 1998).

It follows directly from the foregoing survey that Russia's collective klepto-casino-faire market system is extraordinarily inefficient, compounding the harm inflicted by non-market coercion, subjugation and bureaucratic abuse in the complements of sets C, D, and E. Is this merely a consequence of the underdevelopment of the Russian market, or are more fundamental forces at work? Persistent depression suggests that Russian inefficiency cannot be adequately explained in terms of the historical underdevelopment of its market institutions. Classical and Schumpeterian theory both teach that economic performance should consistently improve as marketization expands. But this has not been the case. Yeltsin's collectivist klepto-laissez-faire obviously is anti-productive and growth-inhibiting with no signs of improvement.

This doesn't mean that Russia lacks markets, only that its markets are severely compressed and distorted by coercion, subjugation and bureaucratic mis-administration, without the partially offsetting benefits of Soviet command planning. Negotiated exchange is warped by the decentralized exercise of unjust market power. It is constrained by residual wage and price controls and is often superceded by private and governmental compulsion. Russia's mixed collectivist economy is designed to serve

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the anti-productive interests of kleptocrats, cronies, tycoons and the Mafia, providing the foundations for a future rentier state where the demand of pre-capitalist clique will be sovereign.

It is premature to judge whether this anachronistic system, which is light years removed from the transitional concept of self-cleansing and self-developing markets, will endure or is merely a way station on the road to a more productive and socially responsible regime. At the moment, the outcome is anybody's guess. Russia, lacking a tradition of civil liberties and property rights, may remain a grotesque caricature of the Czarist servitor system as Lenin feared. It could metamorphose into a butterfly of advanced capitalism as market liberalizationists aver, or veer toward some variant of fascist-communist authoritarianism.

NOTES

1. The "general, perfectly competitive short-run standard" will be applied throughout this paper, and will serve as a conceptual ideal. The conventional has many virtues because of its close links to allocative theory, but is also subject to some contentious disputes both about its nature and feasibility. To avoid misunderstanding, the following conventions are adopted with respect to this ideal: First, individuals act to maximize in determining their labor-leisure trade-off, their investments and consumption, while firms profit maximize. Second, firms are assumed to operate continuously differentiable production functions exhibiting diminishing returns, operate competitively with full information, unimpeded by barriers to entry. Third, in accordance with Irving Fisher's theory of interest, managers understand how to trade-off optimally with the future, maximizing profits in every time period, choosing technologies that maximize present value, pursuing new businesses and innovating whenever such opportunities arise. Fourth, it conflicts emerge between maximizing production potential and equity because economies of scale preclude atomistic competition, income and wealth maximizing take precedence. Fifth, if economies of scale, patent and related intefct industry dynamic efficiencies affect the optimal rate of innovation require some modest limitations on profit information, and barriers to entry, then again priority is given to maximizing the welfare of nations. Sixth, problems of inconsistent expectations, and automatic equilibrium associated with the introduction of money and credit, wage and price rigidities and other Keynesian complications are set aside by assuming perfect neoclassical policymaking. Seventh, following Adam Smith's admonitions about collective charity in his Theory of Moral Sentiments, ideal laissez-faire is taken to presuppose a Lockean social contract which criminally "useful" economic practices like theft, and coercive market power (usury), and is compatible with "competitiveness", social democratic regulation and transfer (given the preferences of Lockean social contracts). The state is charged with the enforcement of criminal law, including violations of contract, anti-micro- and macroeconomic regulation, governance and collective charity (Greif, 1996). Mints, 1976; Revs, 1971.

The author does not believe that this ideal faithfully reflects contemporary market realities because efficiency assumptions are readily violated, states raiser and mix regimens, and democratization (to practice) impugns the fully informed preferences of Lockean social contractors in determining charitable state regulation, governance and transfer (Arrow, 1993). However, it is assumed as a working hypothesis that there is a strong positive correlation between the wealth of nations, and economic welfare (not necessarily the same things), and the degree to which national economic systems approximate competitive ideological ideals because of the self-disciplining effects of individual utility and corporate profit maximizing are strongly correlated. Russia's performance will be evaluated accordingly and will be found wanting. The competitive ideal thus not only can serve here as an objective criterion in its own right, but as a proxy for a large set of social welfare constructs (Bergson, 1976; Robinson, 1981).

2. For a critique of the transitionist theories of these scholars see Shipilov (1990; 1994).

Russia's debt can be divided conceptually into four categories: pre- and post-Soviet, and commercial and sovereign. The August 17, 1998 default primarily involved 289 billion rubles of privately owned, post-Soviet Russian treasury bonds valued at the time at 46 billion dollars. Foreigners hold one third
of those securities. The government's default also precipitated a chain of defaults on foreign currency sovereign, corporate, and derivative investments denominated in rubles and dollars, and even bank deposits. Officially, businesses would receive 20 rubles and individual bank deposits 50 rubles per ruble on their foreign bank accounts. Treasury bond and derivatives holders are likely to receive about 5 cents on a dollar, and those with bank deposits may ultimately fare little better. The government additionally is in arrears (and technically in default) on another 20 billion dollars of Soviet-era debt, and is offering 70 cents on a dollar as settlement in lieu of a 306 million dollar part due payment. The technical and political reasons, the Kremlin insists, that this isn't actually a Russian default because the debt was issued by Vedrzebanbank, not the government (which owns and controls the bank). The debt was issued by Vedrzebanbank, not the government (which owns and controls the bank).

1. It is tempting to attribute Russia's shattered stabilisation to external factors, namely the fall of oil prices and changing sentiments toward emerging markets. But fundamental distortions threaten the Russian economy. The financial crisis in Southeast Asia and the drop in energy prices only hastened the failure of stabilization (Govorukhin, 1999).

2. The IMF's new loan to Russia, its first in five years, has been a political success for the government's foreign policy. But the IMF's role in Russia is still unclear. The United States, which has been a major benefactor of Russia's economic reform, remains skeptical of the IMF's ability to help Russia.

3. The Russian government has been criticized for its slow response to the economic crisis. Critics argue that the government should have taken more aggressive measures to stabilize the economy.

4. The Russian economy is facing a significant challenge in the form of a severe and prolonged recession. The government is taking steps to address this issue, but the outlook remains uncertain.

5. The recent turmoil in the Russian stock market has caused significant losses for investors. The government is working to stabilize the market and protect investors' rights.

6. The Russian government has been seeking to attract foreign investment to help stabilize the economy. However, foreign investors are hesitant due to the political and economic uncertainties.

7. The Russian government has been implementing a number of economic reforms to stabilize the economy. These reforms include tightening fiscal policy, reducing government spending, and liberalizing prices.

8. The Russian government has been seeking to improve its relationship with the international community. This includes working with international organizations such as the IMF to stabilize the economy.

9. The Russian government has been criticized for its lack of transparency and poor implementation of economic reforms. This has led to concerns about the government's ability to stabilize the economy.

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REFERENCES

OTHER THINGS EQUAL

Christian Economics?

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Tell us therefore, What thinkest thou? Is it lawful to give tribute unto Caesar, or not?

Shew me the tribute money... Whose is this image and superscription? Caesar's.

Render therefore unto Caesar the things which are Caesar's; and unto God the things that are God's.

I only recently became a Christian, at age 55. I've been an academic economist since I was 20. Is it possible to be a Christian (or Jew or Moslem or Buddhist or Hindu or whatever) and an economist at the same time?

What I can say at least is that the conventional opposition of Christianity and economics is not necessary. The progressive Christian feels that God and Mammon are necessarily opposed. She feels guilty if her Sunday morning merit doesn't whet her business Monday through Friday (Saturday is too busy for chiding). The marketplace is felt to be dirty, or at any rate the opposite of sacred. Should a Christian woman shine as a light unto the world or retreat into a desert hermitage? Should a Jewish man stick to his cobbler's last or spend his waking hours at the House of Study?

My reply is the conventional one, that on the contrary the virtues should balance and interpenetrate, that we should be charitable on the job and businesslike at Vestry Meetings, at least if we have resolved to be in the world (and "being in the world" happens even in a monastery). But I go a little further than is common. I say we should be charitable on the job and businesslike in the Vestry Meeting. Not perfect - not more than is commonly thought. The world already balance and interpenetrate.

Economics since its invention as a system of thought in the eighteenth century has spoken mainly of the middle virtue of the seven cardinal virtues, Prudence, an androgynous virtue counted good in both men and women as stereotypically viewed. (The word "prudence" is a useful, long-period compromise among the wisdom-words from phonetics in Aristotle to "maximization" in the modern economist.)

Other Things Equal, a column by Deirdre McCloskey, appears regularly in this Journal.

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Eastern Economic Journal Vol. 25, No. 4, Fall 1999