Problems and Prospects for the Development of New Commercial Structures in Russia and the Russian Far East

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ABSTRACT

The objective of this article is to discuss the problems and prospects for the development of new organizational forms and institutions in Russia as well as the Far East. The discussion begins with a cursory discussion of the legal and institutional background of the Soviet economic system before the beginning of Gorbachev's reforms. Next, the major property rights questions associated with the reforms are presented. The rest of the paper discusses and evaluates several of the key legislative reforms dealing with new property and organization forms which have been enacted in the Soviet Union and the Russian Federation since 1988. At the same time, the attributes and functioning of several new types of property and organizational forms are explored. These include joint ventures, foreign investment, free economic zones (FEZs), restructured state enterprises, various types of cooperatives, small enterprises, joint-stock companies, securities and stock exchanges, and commodities exchanges. The long standing and recent heating up of the territorial conflict over the southern Kurile Islands is briefly placed within the context of both the current internal economic and political turf battles raging in Russia. The reform legislation dealing with the processes of destatization and privatization, including an early pessimistic assessment of the voucher scheme which is currently underway, is presented in the last section of the article. The author concludes with very little optimism that the Russian economic market reform process will be successful any time soon and with the fear that the disintegration of the old system is far from complete and has yet to yield its worst ramifications in terms of social infrastructure decay, widespread poverty, rapid concentration of wealth, armed regional and ethnic conflict, and widespread human misery and despair.

Key words Russia, Far East, economic reform, property rights, privatization

1 INTRODUCTION

For the Russian Far East, the remoteness of the region from the rest of the country, its deficit energy supplies, its antiquated and military-based machine building industry, its poor transport and other infrastructure, and its limited agricultural base represent its major geographic and structural obstacles to renewal within the context of Russia. Accordingly, these factors combined with its historic raw material export industries (e.g., coal, timber, fish, and various minerals) serve as strong inducements for the former Soviet Far East to look eastward to the Pacific Rim trading nations for direct and indirect sources of revitalization. The purpose of this paper has evolved along with the pace of events in Russia. Accordingly, readers specifically interested in empirically based discussions of the economic geography of the former Soviet
Far East are referred to other works (Dienes, 1985, pp.146-176, and Rodgers, 1990). The more important objective is to discuss the problems and prospects for the development of new organizational forms and institutions in Russia as well as the Far East.

II THE LEGAL AND INSTITUTIONAL BACKGROUND

Before exploring the on-going evolution of new organizational forms it seems appropriate to review the fundamental economic structures and institutions which were installed during the seventy years of Soviet rule. The structure of the economy was dominated by three primary institutional arrangements and their operational entities. First, instead of allowing individual and collective decisions to allocate resources through the use of market mechanisms and price signals, the Soviet leadership under Stalin imposed a pervasive and hierarchical central planning apparatus. Beginning in earnest in 1928 with the First Five-Year Plan, political factors rather than rational economic ones dominated the economy, leading to all manner of structural and geographic distortions in the economy and its infrastructure. Second, normal property rights were destroyed and replaced by state ownership (and to a limited extent collective ownership in agriculture) of nearly all property, except for personal belongings. This Marxist ideological tenet was invoked in an ebb and wave-like fashion between 1917 and 1928, but became nearly irreversible after 1928 in productive branches of the economy and in agriculture as a result of Stalin's ruthless collectivization campaign beginning in 1929. This so-called theory of the unitary fund has had major negative implications on economic incentives throughout the economy. Third, as the Stalinist system began to destroy the market system, alternative institutions had to be created in order that central plans would be executed. The resulting complex system of administrative command, controls, "plan bargaining," plan targets, bonuses, and perquisite system may be called the law of operative administration (Johnson and Kroll, 1992, p.286).

Now something of the reverse process is underway. From the perspective of economic reform, three fundamental obstacles need to be noted. First, there were very poor linkages and coordination between individual enterprises. Except for the period of Khrushchev's experiment with regional organization of the economy or sovnarkhozy, what existed formally were only indirect links upward and downward through the inefficient and information-distorting hierarchy in the form of goszakazy (госказы) or state purchase and delivery orders. Second, the law of operative administration and the Communist Party bureaucracy created an entrenched class of bureaucrats and nomenklatura with very strong vested interests. Third, nearly the entire Soviet era was dominated by what has been called "gigantomania" or the strong tendency to plan, construct, and operate excessively large enterprises serving extremely large market areas. These all too common enterprises resulted in an economic landscape dominated by large monopolistic concerns (Kroll, 1991, pp.143-174). The all-Union law restricting monopolistic activity signed by

— 51 —
Gorbachev on July 10, 1991, represented the first comprehensive attempt to legally address this Soviet economic-geographic legacy ("Law of the Union of Soviet Socialist Republics: On Restricting Monopolistic Activity in the USSR," 1991, pp. 15-18). Accordingly without such legislation and without foreign competition, substituting private ownership for state ownership under conditions of free-prices and capital scarcity would simply generate huge monopoly rents and lead to rapid differentiation in the wealth of the former Soviet citizens. Indeed, even with the law this has been happening rapidly.

III PROPERTY RIGHTS AND REFORM

From my perspective it appears that Gorbachev at least at some level was trying to create a civil Society in the Soviet Union. His political weaving and dodging while trying to maintain his position of power detract from this interpretation. Nonetheless, as the first Soviet leader since Lenin trained to be a lawyer, he clearly seems to have embarked on a course leading to a society ruled more by law than by political fiat. Fundamental to economic reform is the codification and enforcement of clear property rights and governmental taxation schemes. None of the former republics have comprehensively resolved the complex property rights issues, even the Baltic republics. Aside from the Baltics, Russia seems to have attempted to initiate the most radical property rights reforms thus far. Many of the property rights issues in Russia are nonetheless far from resolved yet, especially land ownership questions. Major practical and political questions remain to be resolved surrounding which of the myriad of old all-Union legislation remains in effect versus new Russian Republic legislation. Certainly, political stability and clearly delineated property rights are crucial if the Soviet Far East as well as other regions and republics of the former USSR are to develop private market relationships and induce domestic private entrepreneurial investment, let alone to attract significant foreign capital investment.

From the perspective of their role in the economy, several pertinent post-Soviet property rights questions naturally arise (Johnson and Kroll, 1992, pp. 309-310). First, who has the residual rights of control over an enterprise or firm after all contractual obligations have been fulfilled? In the past the central government ministries, planners, administrators, and ultimately the Communist Party exercised control over these residuals if any existed. Second, who decides what to do with the assets of an enterprise? Again, under the old command system, enterprise directors were highly constrained by their ministries and central planners over the management of assets. In fact, I would argue that in fundamental ways the entire Soviet economy lacked a managerial class at the individual enterprise or factory or farm level. In other words, I am arguing that so-called Soviet enterprise directors did not really function as economic managers in the Western sense at all, but rather after engaging in periodic "plan bargaining" with central planners and ministry officials, they functioned primarily as tools to implement orders ultimately proclaimed from above.

52
Hence, the Soviet name of "factory director" or "enterprise director" is actually a better name than factory or enterprise "manager." As such, risk avoidance rather than entrepreneurial risk-initiating behaviors were instilled and rewarded. This behavioral legacy constitutes a major human resource impediment to a market transition. Third, who decides what to do with generated income? This is a complex question. In the past ministry officials had major influence and control over such decisions. Furthermore, until the recent past, income generation was not even a major enterprise goal because of soft-budget constraints. Thus, before questions about the disposition of generated incomes can even be asked, enterprise managers must develop the decision-making skills required to produce such income!

The above discussion implicitly reveals an inherent tension between central administrators and individual enterprise managers or directors. While the class of central administrators and the class of enterprise managers may in fact all have been subsumed under a more general class of the nomenklatura elite, they nonetheless had and have some divergent and conflicting interests. This tension from the past system has become exacerbated by the reform efforts. This really represents the fourth generic question, the question of the rights of administrators versus managers. Clearly, in this regard there has been an ongoing dramatic shift away from the power and influence of the administrators and toward the enterprise managers and directors.

Finally, the privatization which has taken place thus far seems to have been more a de facto spontaneous privatization on the part of the bureaucracy, nomenklatura, and former Party officials, than an orderly, open and democratic process. Accordingly, one may ask the question of whether or not the market transition process so far can be better characterized as one yielding efficiency gains or as one of the personalization, frankly speaking the theft, of state property with monopolistic inefficiency remaining intact.

IV KEY LEGISLATIVE REFORMS DEALING WITH NEW PROPERTY AND ORGANIZATION FORMS

Since 1988 several pieces of legislation have been enacted which bear on property rights questions, and hence, upon the reconstitution of old organizational forms and the formation of new organizational structures throughout the former USSR. Since the formal dissolution of the USSR in December 1991, the fates of many of these legislative acts have been open to question. As noted previously, it is rather uncertain which of the all-Union acts will continue to be observed even within Russia, let alone the other republics. Although the analysis here of these major laws and decrees is not confined to the Russian Far East, the same processes and outcomes are underway in the Far East.

1. Joint Ventures, Foreign Investment, Free Economic Zones and the Kurile Islands

One of first relevant economic reform acts was the 1988 Joint Venture legislation (Golubov, 1989, pp. 351–361). This act represented a marked departure from Soviet law
which for decades prevented any foreign ownership of enterprises in the Soviet Union. This joint venture legislation allowed for up to 49 percent foreign ownership of enterprises. Thus, while still maintaining Soviet governmental control over such collaborative efforts, the goal seems to have been to import and modernize the technological base of such firms. An additional break with the past is that the output from such joint ventures was not subject to state orders or goszakazy. As a further inducement to attract foreign capital investment, all profits generated by these new firms were exempt from Soviet taxes for first two years. The difficulty of repatriating profits, due in part to the ruble’s lack of convertibility, retarded the possible creation of many such joint ventures. In response the Soviets amended the legislation to sanction majority foreign ownership. A decree in October 1990 further liberalized the role of foreign capital by allowing 100 percent foreign ownership (Izvestiya, 26 October 1990, p. 1).

The potential role of foreign investments was strengthened and extended by provisions of the draft Principles of Legislation on Foreign Investments in the USSR adopted by the Union parliament in May 1991. Reaffirming the right of enterprises to be created with 100 percent foreign capital, this legislation expanded the range of foreign investors allowed. For example, the investors can be juristic persons, stateless persons, foreign states and international organizations. The types of allowable enterprises covered by this law include in addition to joint ventures, joint-stock companies, limited-liability companies, partnerships, and individual proprietorship firms. Furthermore, the law provides for the granting of concessionary rights for the development of natural resources to foreign investors. Finally, it addresses questions of the establishment, and procedures governing the activities of enterprises within so-called “free-economic zones” (FEZ) (Stepovoi and Chugayev, 1991a, pp. 15-16).

It is doubtful whether any Russian state agency has even tried to keep track of the number of regions and governmental bodies which have either declared themselves to be a FEZ or have established committees to plan for the creation of such FEZ within their territorial jurisdiction. For since 1989 when the cities of Vyborg and Novgorod near St. Petersburg (then Leningrad) and Nakhodka in the Far East became the first established free economic zones, more than sixty other Russian regions have petitioned the government to be granted such status (TASS, 22 September and 22 October 1989). Now even the Sheremetyevo Airport near Moscow has been launched as a free economic zone with tax breaks and lenient customs regulations in order to attract foreign hard currency investments (Izvestia, 14 December 1991, p. 4). Likely of far more interest to Japan are the entire Sakhalin Island FEZ, the Nakhodka-Vostochnyy FEZ, the proposed greater Vladivostok FEZ which would incorporate the Nakhodka-Vostochnyy FEZ, the proposed Khabarovsk FEZ, the proposed Amur FEZ, the proposed energy and mineral-rich Yakutian FEZ, and the international Tyumen River project.

The second oldest and most daring of these economic experiments is on Sakhalin Island. Launched in 1990 by the economist and newly elected Sakhalin Oblast Governor
Valentin Fedorov. Given high publicity in the Western press as a liberal reformer and strong supporter of Yel’tsin during the August 1991 coup attempt, the initial reports from Sakhalin seemed promising. Now two years later Sakhalin’s economy is showing the same drops in output, falling standards of living, inflation, failing enterprises, and disillusionment among the populace as the rest of Russia. More disturbing are the accusations that Fedorov has created a business climate based more on nepotism and government subsidies than market principles. Like most other regional leaders he is engaged in increasingly fierce turf battle with Moscow over natural and other scarce resources. No longer aligned with Yel’tsin’s reform program, Fedorov has recently begun an active campaign against the Yel’tsin administration over the exploitation of the mineral-rich oceanic shelf off the Kurile Islands (Brown, 1992). His campaign against any possible Yel’tsin foreign policy initiatives which would possibly transfer four of the Kurile Islands to Japan has earned him allies among the Russian nationalist movement (Sabov, 1992). In February 1992 the Russian National Assembly even passed a resolution supporting Fedorov’s “solid patriotic position that the Southern Kuriles are an indivisible part of Russia” (“Resolution of the Southern Kuriles of the Extraordinary Congress of the Russian National Assembly,” 1992).

Such an event highlighted the strong growing nationalist Russian resistance to a territorial transfer of any of the disputed Kurile Islands as part of formal Russo-Japanese Peace agreement, despite the fact that such a settlement potentially could lead to significant increases Japanese foreign investment throughout Russia. During August and early September 1992 the RFE/RL (Radio Free Europe/Radio Liberty) Daily Reports contain several Kurile Island news items clearly foreshadowing Yel’tsin’s 9 September 1992 cancellation of his Japan visit (Kosiba, 1992). Interfax reported on 7 October 1992 a statement by President Yel’tsin that a significant change in the hitherto “intransigent Japanese position on the Kurile Islands” may be possible and that under such conditions he would visit Japan (Foye, 1992).

2. Reform of State Enterprises and Cooperatives

The Law on State Enterprises enacted in January 1988 decentralized the management and increased the autonomy and flexibility of state enterprises in a number of significant ways (Pravda, 1 July 1987, pp.1-4). First, it increased the autonomy of firms in the setting of production targets. However, to a considerable degree this positive strategy was offset by the persistence of compulsory state orders (госзаказы—goszakazy) which were still to account for 90 percent of production in 1988. A blow was struck for workers’ control as the law allowed a workers’ voice in the selection of management. An example of the implementation of this provision was the workers’ election of a new director at the Riga Automobile Factory (RAF) within the context of a so-called organization action game (игра—igra) conducted by an organization called the Moscow Methodological Association (ZumBrunnen, 1993).

Probably the least understood provision of this law pertains to cooperatives. This
portion of the law allowed for the formation of kooperativy *under* (кооперативы при) state enterprises. Soviet non-agricultural (i.e., non-*kolkhozy*) cooperatives are most often understood to be quasi-private enterprises. This interpretation, however, is inaccurate. While indeed there are private cooperatives, something closely resembling American private business partnerships, far more of them are the type of cooperative organized and controlled by state enterprises. For example, it has been quite common to convert or spin-off such things as equipment repair shops at factories into cooperatives under the auspices of the factory.

The 1988 Law on Cooperatives created powerful incentives for state enterprises to create such cooperatives (кооперативы) (*O kooperatsii v SSSR*, 1988). First, the law exempted cooperatives from compulsory plan assignments. Accordingly, state enterprises could develop profitable sideline businesses without direct central governmental control and influence over their activities. Second, cooperatives were granted much freedom to set wages and prices. Again, this constituted a viable vehicle for enterprise managers to circumvent legally the rather stringent restrictions on their own wages as well as the wages of allied *nomenklatura* and on the prices for goods and services produced by such cooperatives. This legislation also allowed for the creation of Coop banks. The forming members of these banks were overwhelmingly state enterprises. Such banks increased the financial flexibility of their founding state enterprise "*koop*" partners. Although the situation is very fluid in Russia now, recent data reveal just how significant the state enterprise coops were compared to the private enterprise coops. At the beginning of 1991, 80 percent of all Soviet cooperatives were *kooperativy under* (кооперативы при) or attached to state enterprises. Similarly, they are reported to have produced 80 percent of the total goods and services sold by coops ("*Ekonomika SSSR* v 1990 godu," 1991, pp. 9-13). By August 1991 about 255,000 coops were registered and operating, employing 6.5 million people. They reported 42 billion rubles’ worth of output during the first half of 1991 ("*Ekonomika SSSR v 1 polugodii 1991 goda,*" 1991, pp. 1-3).

Cooperatives attached to state enterprises were given additional strong, incentives as a result of the November 1989 Leasing Law ("*Osnovy zakonodatel’stva Soyuz SSR i soyuuznykh respublik ob arendye,*" 1989, pp. 14-15). Such cooperatives according to Johnson and Kroll (1992, p.287), often operate under leasing agreements (аренда—*arendy*) with their state enterprise or ministry parent(s). This law allowed an entire enterprise to be leased if two-thirds of its workers vote in favor of such a reorganization. The coop would then pay rent and depreciation costs to its "state" parent(s) on the equipment and buildings it leases. A June 1991 *Izvestia* article authored by a former Party ideologist claimed that in Russia already 2,000 industrial enterprises, 237 construction trusts, and 12,000 stores and public food service establishments were operating under such leasing arrangements during the first quarter of 1991. An additional 17,600 public food service establishments and 11,500 retail trade enterprises had been converted into coops, and 20,200 private farms averaging 41 hectares had been established in the
then RSFSR. Leased industrial enterprises produced 17 billion rubles’ worth of goods (Medvedev, 1991, pp. 9-10, and 17).

These coops were being allowed to purchase equipment outright with their earnings. Hence, the leasing arrangements seem to be a transitional form between state enterprises and private firms. The well founded concern of many, however, is that the “mafia,” black marketers, nomenklatura, and managers will end up owning such firms nearly gratis by bribing workers with promises of pay raises and job security in order to secure their votes for conversion to coops. The 1990 Law on Enterprises provided that the owner of an enterprise had the exclusive right to choose management personnel. While in the Western context this makes rational sense, in the transformational context of the former Soviet Union this weakened the political and economic position of workers and strengthened that of the administrators and managers, that is, the likely new owners (Hanson, 1990, p. 104).

3. Small Enterprises

Many “Soviet” scholars and economists appear to be well aware that small Western firms are the sources of most innovations and technical change that are then bought out by larger corporations. Accordingly, the performance of Western small firms motivated Soviet legislation pertaining to small enterprises. The first was the Temporarv Statutes on Small Enterprises (1989) (Sotsialisticheskaya industriya, 29 September 1989, p. 2) and the August 1990 Decree on Creation & Adoption of Small Enterprises (“O merakh po sozdaniyu i razvitiyu malykh predpriyatii,” 1990, p. 4). Small enterprises were defined by the size of the workforce with various ceilings ranging from 15 in retail trade to 200 in construction. Both the temporary law and the decree allowed for the separating off of portions of already existing state enterprises to form such small enterprises (malye predpriyatiya—малые предприятия). The small enterprise organizations were allowed significantly greater operational and financial freedom than their state-owned parent firms. In an apparent effort to curb the growth of independent coop enterprises, the 1990 decree granted small enterprises a total tax exemption until the beginning of 1991 and access to the then centrally allocated inputs of their parent state firms. Effective in January 1991 the federal law on taxation granted small enterprises preferential tax treatment. For example, small enterprise profits invested in labor training, new technology and capital improvements were exempted from taxes. Then, too, profits from certain prescribed activities such as building materials manufacture, construction, consumer goods manufacture and food processing were granted an initial two-year tax holiday. Furthermore, small enterprises were forgiven 75 percent of their profit tax liability for the first year and fifty percent for the second year on profits generated from all other activities. At the same time, non-exempt coops were precluded from enjoying these tax concessions on their production of consumer goods (“O nalogakh s predpriyatiy, ob’yedineniy i organizatsiy,” 1990, p. 12). It should have come as no surprise that many existing coops responded to these differential taxing and other legal arrangements by re-registering themselves as small enterprises (malye predpriyatiya)
Kubasova, value convinced believed to January new companies vetstvennost’yu,” vakh reach state, are individuals. Ment ‘workers, to conditions. Closed joint-stock companies are ones in which presumably only the state, the workers, and management could hold stock. The two most important conditions were that both the enterprise’s workers and a state organ authorized for the reorganization purpose would have to reach a joint decision on the reorganization (“Polozheniye ob aktsionernykh obshchestvakh i obshchestvakh s organichennoy otdvetstvennost’yu,” 1990, pp. 12-14).

The entire concept of joint-stock companies is quite novel, revolutionary, poorly understood, and frankly still broadly suspect by the average proletarian citizen in post-Soviet Russia. For instance, one of the first new commercial structures to offer to sell shares to the public by open subscription was the Menatep Interbank Association. A January 1991 poll of 220 of the subscribers to Menatep stock revealed that 85 percent believed that dividends on the shares are to be paid annually and 25 percent were convinced that the market value of the shares could not be lower than the face value of the share certificates (Sobolev and Kubasova, 1991, p. 23). The concept of “limited liability” companies seems even more nebulous and suspicious to Russian citizens. Personal interviews and anecdotal impressions suggest that many Russians believe that such companies legally have no responsibility to guarantee their products nor to carry out their promises and contracts!

Another very important central piece of property rights legislation that was adopted at the end of May 1991 before the dissolution of the USSR was the Law on Inventions in the USSR. Essentially this law substantially strengthened the economic, legal, and organizational principles for the protection of inventions under various forms of ownership within a market economy. Economic incentives for inventions, especially in the areas of medicine and ecology, were increased. The rights and benefits for enterprises that use inventions were expanded. The establishment of a complementary Patents Court and state patents department were expected to be delayed somewhat pending the adoption of other appropriate reform legislation (Stepovoi and Chugayev, 1991 b, p. 16).

5. Securities and Stock Exchanges

The draft law on securities and stock exchanges was first considered by the USSR Supreme Soviet on July 10, 1991 (Stepovoi and Chugayev, 1991e, pp. 16-17) and finally adopted in December 1991 after a Russian securities market was already in actual operation (Kuznetsov, 1992, p. 21).

The goal of this legislation is to protect as much as possible the interests of stockholders, especially against the incompetence and/or dishonesty of professional participants in the securities market. While not assuming the role of guarantor of secur-
ities, the state is to offer this protection "based on the principle of glasnost." For example, issuers (juristic persons pledged to fulfill the obligations stemming from the conditions established for issuing securities) are not legally permitted to commence the sale of stocks and other securities without prior publication in at least two newspapers of preliminary, comprehensive and absolutely trustworthy information about the securities and the financial position of the entity or persons issuing them. This legislation introduces for the first time within "Soviet law" the principle of property qualification. In other works the juristic issuer of the securities must possess a certain amount of property (Stepovoi and Chugayev, 1991e, pp.16-17). The stringency of the requirements to obtain the necessary license to engage in professional securities activity potentially appears to cut two ways. On the one hand, they could perform as intended to protect the interests of stockholders. On the other hand, they could function as yet again another fertile arena for bureaucratic graft and corruption.

Within a matter of months after the passage of the law on securities and stock exchanges, the Russian stock market with registered securities totaling more than 100 billion rubles was already reported to be in a severe liquidity crisis (Kuznetsov, 1992, p. 21). There were several plausible reasons for this state of affairs. First, very few of the joint-stock companies had tangible or real assets to back up their securities. Most seem to have been collecting money for future, often vague, investment projects. Given the high inflation rates and profit tax rates (30%), there appear to be few such investment projects which could generate any profitability. Hence, nearly all stocks being sold on the secondary market were highly overvalued. Second, the weak to nearly non-existent financial infrastructure and the lengthy delays in payments under the high inflation conditions make any business deal very risky. Third, a severe liquidity crisis was also rapidly developing in the funds available for enterprises to pay for current supplies, let alone to set aside for long-term investment funds. Fourth, despite the law's disclosure provisions there was and still is virtually no system for collection and public disclosure of such financial information. Furthermore, suppose a state enterprise decides to become a joint-stock company (as required by the privatization scheme discussed below), what would the financial statement or prospectus of such an enterprise accustomed to operating with "soft budget" constraints really mean anyway? Fifth, even if basic rules of business ethics were being commonly practiced, insufficient time has elapsed for any firms to establish a reliable reputation for honesty and sound business acumen. Sixth, despite the Russian statute on securities, relevant criminal and administrative codes are lacking. Finally, there still is no coordination amongst the former republics still actively within the "ruble zone" regarding a unified policy for the purchasing and selling of securities.

6. Commodity Exchanges

Two of the slogans of the perestroika campaign were "self-financing" and "self-management" for state enterprises. While the debates raged over what these terms meant and how to define them operationally, "self-management" was forced on state
enterprises by the systematic reduction of the roles of three longstanding central Soviet economic institutions—Gosplan (State Planning Committee), Goskomsen (State Price Committee) and Gossnab (State Committee for Material Supply). The reduction in enterprise goszakazy (state orders) and state-mandated material input supplies emanating from these withering institutions resulted in the rapid decay of the old distribution system. In May 1990 the Moscow Commodities Exchange became the first of the rapidly proliferating commodity exchange institutions which have sprung into existence to fill the institutional vacuum in the allocation of goods and coordination of the economy. By October 1991 more than 400 such commodities exchanges were operating throughout the entire former Soviet Union (Greenhouse, 1991, pp.C1 and C2). At present, October 1992, their number may well be closer to 1,000. Observing the operation of the Vladivostok Commodity Exchange in Vladivostok and the “Bizon” exchange in Khabarovsk in the autumn of 1991 and interviewing their respective founders was fascinating and stimulating. They function more like big wholesale auction markets where commodities and other products are sold. Primitive compared to American or Japanese commodity exchanges, perhaps even reminding Western visitors of “flea markets,” they nonetheless have been performing the dual roles of (a) connecting commodity buyers and sellers and (b) price discovery. Items ranging from less than a dozen pairs of socks to building bricks, crude oil and even helicopters were being auctioned off one by one. The asking prices for the goods being auctioned at the Vladivostok exchange, during its second day of operation totaled over 70 million rubles (32 rubles/$1.00 at the time). These two Far East exchanges, like most of the other Russian commodity exchanges, were founded by a mixture of private individuals, privately-owned companies, and state-owned enterprises, including organs of several state ministries. The exchanges make their profits in three ways. First, the original founders usually try to capitalize their exchanges by selling shares in them for hard currency if possible, thus forming a joint-venture firm. Second, they sell brokerage seats for the rights to represent buyers and sellers and transact business deals. Third, the exchanges charge commissions ranging from 0.5 to 5.0 percent on transactions. The individual broker usually receives 40 percent of the commission. Many such brokers have joined the emerging class of Russian “nouveaule riche” easily identified by one of two common clothing styles—black leather jackets (Greenhouse, 1991, p.C2) and/or athletic wear (jogging suits and canvas jogging shoes)—and chauffeured foreign automobiles.

Their rapid proliferation, vigorous activity, and the all too common charges of corruption and dishonesty leveled against them, and especially against some brokers for “selling air,” created alarm among several Deputies of the Russian Parliament. Consequently, on February 20, 1992, the Russian Parliament adopted a Law on Commodities Exchanges and Exchange-Brokered Trade (Chugayev, 1992, pp.22-23). Its authors claim that the guiding principle of the law is to strike “an optimal balance between freedom of entrepreneurial activity and effective control and regulation of
such activity by the state" (Chugayev, 1992, p. 22). This law has been received as a mixed blessing by brokers. On the one hand, the law places such new and already existing commercial structures on a legal foundation. Furthermore, the articles of the law guarantee considerable freedom in the areas of self-management, the rules of exchange-brokered trade and free prices. On the prohibitory side, the law bans commodities exchanges from any type of economic activity not specific to them. For example, they are banned from regular (not exchange-brokered) trade and middleman trade activity. They are forbidden from purchasing stock and establishing subsidiaries. They are only allowed to invest capital in the organization and development of exchange-brokered trade and its market infrastructure. As part of the antimonopoly provisions of the statute, banks and other "bodies of power" are forbidden from participating in the activity of commodities exchanges. These prohibitory portions will either force some of the commodities exchanges to close or more likely will lead to ingenious ways of circumventing the law. Regardless, if a market economy truly takes firm root in Russia, the role and number of commodities exchanges will change drastically. Wholesale trade will replace many of the current commodities exchanges transactions while commodities exchanges will come to play an important new role in the as-yet undeveloped commodities futures markets. Unless politically stalled, infrastructure and telecommunication developments will lead to severe competition among and rationalization of the number of these currently extremely active and lucrative commercial (albeit mixed private and state ownership) market institutions.

7. Key Legislative Reforms Dealing with Destatization and Privatization

The all-Union Law on Destatization and Privatization was approved by the Supreme Soviet of the USSR on July 1, 1991, after months of lengthy and heated debate (Stepovoi and Chugayev, 1991d, pp. 12–13, and Stepovoi and Chugayev, 1991c, pp. 16–17). Building upon some of the other laws discussed previously, this legislative act provided for the conversion or restructuring of state enterprises into a variety of new property forms, including joint-stock companies, leased enterprises, cooperatives, redemption of leased property by the lessees, and the outright sale of enterprises by competitive bid or auction. Enterprise workers were granted a preferential right to acquire shares in their enterprises and to determine the procedure for and form of privatization (Izvestia, 8 August 1991, p. 3). Six months after the formal disbanding of the Soviet Union this law was supplanted by Russian Republic legislation.

However, interviews with members of the Committees for Privatization for Khabarovskiy Kray in Khabarovsk and Primorskiy Kray in Vladivostok in September 1991 produced some surprises. First, the assigned tasks of the committees were more one of cataloging, assigning, and registering state firms and enterprises located within their respective kray into various categories of (territorial-based) state property at the time—all-Union, Russian Republic, kray, oblast, rayon, municipal, etc., presumably as a prelude to later privatization. Nonetheless, two clear trends were evident in
both kays. The Russian Republic was actively taking over former all-Union enterprises, and municipalities were also big gainers, ending up with about 30 percent of the enterprises. The real tasks of de-statization and privatization seemed very distant and vague, especially to the Primorskiy Kray committee. The Khabarovsk committee was much further along in the process and had made some interesting attempts to assess housing values, including several geographic factors such as accessibility and environmental amenities.

On 1 July 1992 Russian President Yel’tsin signed his decree “On Organizational Measures for the Conversion of State Enterprises and Voluntary Associations of State Enterprises into Joint-Stock Companies” and the “Statute on the Commercialization of State Enterprises and Their Simultaneous Conversion into Open-Type Joint-Stock Companies” (Karpenko, 1992, p.28). Both of these pieces of legislation were based on the “State Program for the Privatization of State and Municipal Enterprises of the Russian Federation for 1992”, previously approved by the Russian Supreme Soviet and announced in late June 1992. These related laws represent the most important and specific pieces of Russian Federation legislation on state privatization to date (Izvestia, 27 June 1992, p.2). Covering a three-year period the document contains specific targets for 1992 and a prognosis for the next two years. The program can be considered to have at least nine main objectives:

1) to generate a social stratum of private owners who will facilitate the creation of a socially and consumer oriented market economy;

2) to increase efficiency of enterprises through privatization;

3) to provide a social support and protection net for the population;

4) to develop a social infrastructure using money obtained from the privatization sales;

5) to promote ruble and general financial stabilization;

6) to create a competitive economic atmosphere;

7) to de-monopolize the economy;

8) to attract foreign investment; and

9) to create the conditions needed to broaden the scope of privatization in 1993–1994.

While the law divides state and municipal property into five classes with respect to the possibility of privatization during 1992, as enacted there were and still are three glaring omissions: state farms (СОВХОЗЫ—совхозы), housing, and land in general! The first class refers to objects and enterprises whose privatization is prohibited—mineral and water resources, the gold reserve, the Central Bank, telecommunication facilities, military property, and objects considered to be part of Russia’s cultural and historical heritage.

Depending upon the type of property, the second class requires the consent of the government of Russia or one of the republics within the Federation, a Deputy Prime Minister, the State Property Committee, and the appropriate ministry. A partial list of the types of property falling under these requirements includes weapons production and repair facilities, fuel-and-energy complexes, commercial banks, news agencies, and enterprises that manufacture machinery for the nuclear power industry. On
the one hand, national security issues can be plausibly put forth for some of these added restrictions, but the restrictions on privatization of commercial banks are as likely to foster as they are to prevent corruption. Then, too, these restrictions on telecommunications and news agencies cast a long censorship shadow over the entire program.

The third category includes enterprises from any economic sector that possess dominant (i.e., monopoly) positions in national and local markets; higher and secondary educational institutions; breweries and distilleries of alcoholic beverages; air, rail and water transport enterprises; and firms having more than 10,000 employees. Privatization of any of these third category enterprises can only be done by decision of the Russian Federation’s State Property Committee after due consideration for the opinion of the relevant ministries. Furthermore, this same State Property Committee can secure controlling blocks of shares in any and all of the properties under the second and third categories as federal property for a period of up to three years. One merely needs to ponder a simple question in order to realize that this entire proposed process of privatization of categories two and three seems seriously flawed from the start. What incentive do ministry bureaucrats have to agree to have an enterprise under their jurisdiction privatized willingly, without an arrangement, that protects or enriches them personally? The obvious theoretical and practical answer is very little.

The fourth category of state properties is comprised of enterprises such as pharmacies, public baths, and urban mass transit systems that may alter their ownership status only in accordance with local privatization programs and by the consent of local property management committees.

The fifth and final category is very interesting for several reasons. First, this category consists of enterprises and facilities that are subject to mandatory privatization. These are consumer service enterprises, light industry, enterprises of the food industry, public catering, wholesale and retail trade, etc. These enterprises are probably correctly perceived as ones which may most easily and quickly develop market relations. Accordingly, it is rational to privatize these types of enterprises first. On the other hand, however, this category also contains money-losing enterprises in all sectors, mothballed facilities, and unfinished facilities (i.e., those remaining unfinished after completion deadlines). Given the pervasive current liquidity crisis and the history of “soft budget constraints” on most state enterprises, it seems that it is becoming increasingly difficult to distinguish in an objective manner a money-making from a money-losing enterprise. Simple “cooking of the books” by enterprise insiders could fairly easily make a profitable enterprise appear “money-losing” for the purposes of “privatization”—really “personalization” by enterprise officials. Similarly, a few corrupt payoffs to officials could result in potentially very profitable state projects being deliberately left technically unfinished,” and hence, available for privatization by insiders.

On August 19, 1992, the first anniversary of the failed coup in the Soviet Union, President Yeltsin devoted a significant portion of his major national television address
to privatization vouchers. Announcing that the distribution of vouchers for the purchasing of shares of state-owned enterprises would begin October 1, 1992, he called for the creation of "millions of owners, not a small group of millionaires." Each Russian citizen is now in the process of receiving one voucher valued at 10,000 rubles. A voucher holder may bid to purchase available shares directly, indirectly through an investment company, or sell the voucher for cash. According to Yeltsin a total value of 1,400 rubles worth of state assets (calculated based on 1 January 1992 price levels or approximately 43 to 45 billion dollars) will be available for purchase through the voucher program (Whitlock, 1992). On August 31, 1992, Russian Deputy Prime Minister Anatolii Chubais told a meeting of industrial managers that because of inflation (now nearly 600 rubles/$1 as of 18 February 1993), these 10,000 ruble vouchers will be worth 150,000-200,000 rubles once large-scale privatization gets underway (Bush, 1992a). However, given the extent of "closed" commercialization/stock allocation options outlined below, the question arises as to what stocks the average person would have available to them. The instant secondary market values for vouchers on the Moscow stock exchange reflected this, as the vouchers face value of 10,000 rubles was already discounted to 6,100 rubles on the first day of their trading 1 October 1992. On 9 October 1992 the Russian Parliament responded by adopting a two-part resolution guaranteeing the face value of the privatization vouchers for three years and specifying that, without details as to how, the vouchers may be used to buy apartments and land among other things (Bush, 1992b).

Initially Russia ordered a very tight schedule for privatization operations. As outlined above, all categories of companies that could be privatized and had fixed assets with a book value greater than 50 million rubles or more than 1,000 employees were instructed to prepare their privatization plans, basically choosing one of three options offered by the State Privatization Program by 1 October 1992:

Option 1—employees given free of charge, nonvoting shares worth 25% of equity, can buy up to additional 10% of equity at a 30% discount from book value, totaling a maximum of six months' minimum wages, top managers can purchase up to 5% of equity at book value, up to 100% of employees' and managers' payments can be made in vouchers;

Option 2—a group of employees purchases 51% of equity at a price determined by the GKI (defined below) and up to 50% of payment can be made in vouchers; and

Option 3—(limited to enterprises with less than 200 employees and a book value of between 1 million and 50 million rubles) one-year lease contract giving employees an option to buy 20% of equity at a 30% discount of book value and up to 100% of payments can be made in vouchers.

While more than 4,000 companies were reported to be at various stages of completing such plans, clearly the process is already behind schedule. By 1 November 1992 companies preparing privatization plans are to be "commercialized" or transformed into joint-stock companies. Shortly thereafter,
Association of Economic Geographers

New Commercial Structures in Russia and the Russian Far East

V CONCLUDING AND FOREBODING THOUGHTS

I wish that I could conclude at this point that the economic reform process underway in Russia is both socially equitable and economically efficient and that it will be successful, but I cannot be optimistic on any of these counts. I fear that the disintegration of the old system is far from complete and it has yet to yield its worst ramifications of social infrastructure decay, widespread poverty, rapid concentration of wealth, armed regional and ethnic conflict, and widespread human misery and despair. Sadly, any major success will probably be measured in decades and generations rather than in months or years. Nonetheless, this pessimistic assessment should not in any way lessen the need today for wise foreign assistance, but assistance that is truly cognizant of Russia's history and culture.

Acknowledgements

The author would like to thank Prof. Yoshiaki Takatsu for all his assistance and for Ilya Zaslavsky for commenting on an earlier draft of this paper. Any errors or interpretations, however, remain my own responsibility.

(Accepted on January 9, 1993)

Notes

1) Examples include such non-profit coops as housing and garage cooperatives, various professional and recreational societies, and new scientific and medical coops.

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ロシアとロシア極東地域における新しい商業構造発展の課題と展望

クレイグ・サンブルネン

本稿の目的は、ロシアとロシア極東地域における新しい組織形態と制度の発展に伴う諸問題を明らかにし、今後の展望を行うことである。まず、ゴルバチョフの改革開始以前における、ソ連の経済システムの法的制度的背景を論じる。次いで、改革と関連する主要な財産権問題が提示される。そのうえで、1988年以降、ソ連とロシア連邦で制定された、財産と組織の新しい形態に関する重要な法的改革のいくつかをとりあげて評価する。具体的には、合弁事業、外国からの直接投資、自由経済地区、国営企業の再編、さまざまなタイプの協同組合、中小企業、株式会社、証券取引、商品取引などについて、それらの特質と実際の動きを明らかにする。千島列島南部に関する長年の、そして最近さらに激しくなりつつある領土紛争は、ロシア国内であれくろっている経済闘争と政治闘争の文脈の中で位置付けてみた。非国有化と民営化の過程に関する改革立法についても取り上げる。それら、現在進行中の労働過程に対する、一期の悲観的な評価についても論ずる。ロシアの経済改革の過程がいずれまもなく成功するであろうと楽観視できるわけではない。古いシステムの解体が完全なものからほど遠く、社会的インフラストラクチャーの崩壊、蔓延する貧困、富の急速な集中、地域間・民族間の武力紛争、苦悩と飽和の蔓延といった最悪の事態が発生しかねないという恐れがある。

（和文要旨は英文要旨から山本健児が翻訳した）